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ECONOMIC COMMISSION FOR AFRICA

Joint UNCTAD/ASTRO/ECA Business Meeting
Between African Trading Organizations
and State Trading Organizations of
Socialist Coutnries of Eastern Europe

Port Louis, Mauritius
26-28 October 1989

AIDE-MEMOIRE

JOINT UNCTAD/ASTRO/ECA/BUSINESS MEETING BETWEEN AFRICAN TRADING ORGANIZATIONS AND STATE TRADING ORGANIZATIONS OF SOCIALIST COUNTRIES OF EASTERN EUROPE

Aide Memoire

I. Background

1. The geographical and structural diversification of trade patterns as a means of reducing the imbalances of Africa's present trade relations would go a long way in changing Africa's traditional role in the prevailing distribution of labour and in international trade. Multiplying the trading partners and improving on the range of traded commodities would further help both African and socialist countries of Eastern Europe to break with the predominantly triangular trade patterns which have put the two groups of countries in a situation of «asymetric competition» whereby market conditions are imposed on them by third parties.

2. The African Heads of States and Government have called for the promotion and expansion of trade between Africa and the socialist countries of Eastern Europe (Lagos Plan of Action, Chapter 251(b)). The technical cooperation programmes hitherto designed and carried out by UNCTAD in cooperation with ECA had analysed the issues and submitted the findings to seminars and other forums for their consideration. The member States adopted relevant policies and measures with a view to creating the appropriate framework for the enhancement of trade.

3. Within the emerging context favouring operational autonomy of trading corporations in both groups of countries, there is a need to promote a second generation of actions which will address the issue of direct trading contacts between operators over products, projects and services to be exchanged.

II. Objectives of the Meeting

4. The purpose of this business meeting is to bring together trading organizations of Africa and Eastern Europe to discuss immediate and prospective business relations to be initiated and/or developed through direct contacts.

5. State trading organizations participating in the meeting will be expected to draw lists of products, projects and services of export and import interest for them and will determine modalities for their trading (countertrade etc...). They will also work out follow up mechanisms for the enhancement of direct trading contacts (visits, exhibitions, long term contracts etc...).

III. Papers, documents and exhibits

6. Background papers on trade between Africa and the socialist countries of Eastern Europe will be made available to the participants by UNCTAD and ECA. Lists of import and export requirements of participating trading corporations will also be circulated. It is also planned that arrangements be made to accommodate exhibitions participants might wish to bring along with them.

IV. Expected outcome of the meeting

7. The meeting is expected to produce the following results:

(a) to offer a forum for direct contacts between traders of both groups of countries and possibly for the immediate initiation of business relations.

(b) to determine demand and supply capacities of participating organizations as well as trading conditions.

(c) to provide an institutional framework for a follow up to established direct business contacts.

V. Participants

8. Participants are invited from all African and East European countries (each country may be represented by executives of at least 2 trading organizations) government representatives might be admitted as observers.

VI. Cost of participation

9. Travel costs and daily subsistance allowance will be borne by participating trading organizations, each for its own representatives.

VII. Date and Venue of the Meeting

10. The meeting will take place from 26 to 28 October 1989 in Port Louis, Mauritius.

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UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

Second Symposium on African State
Trading Organizations

Port Louis, Mauritius
23-26 October 1989

AIDE MEMOIRE

ON SYMPOSIUM ON AFRICAN STATE TRADING ORGANIZATIONS

I. BACKGROUND

1. The second symposium on African State Traling Organizations will be held in Port Louis Mauritius from 23-26 October 1989. This symposium is a follow-up to the first symposium held in March 1987. It is taking place at a time structural adjustment programmes and the role of the public sector are high on the agenda; the deepening economic crisis and the relevance of the current structural adjustment programmes, which has prompted African countries to adopt the African Framework for Structural Adjustment Programmes (AAF-SAP) in May 1989.

2. The alternative framework calls for orderly adjustment programmes taking into account both the human dimension of development and the long term development objectives of African countries. This framework should be urgently filled taking into account sector implications of both the traditional adjustment processes and AAF-SAP in drawing up new policy directions as well as mapping out relevant plans of action. The restructuring and reform of African public entreprises in general and State Trading Organizations (ASTO's) in particular, must continue in order for such organizations to become efficient development tools. However, some of the modalities and processes of such reforms should be reviewed in the light of AAF-SAP in the context of the specific situation of African STOs.

II. OBJECTIVES OF SYMPOSIUM

3. This symposium is a follow-up to the first one held in March 1987. The purpose of this meeting is to work out relevant policy directions for the restructuring, reforming and streamlining of African State Organizations with a view to improving their management and efficiency by:

(a) reviewing existing restructuring and reform practices in order to indicate new policy directions that would enhance efficiency and entrepreneurship as priorities to be achieved in streamlining African State Trading Organizations;

(b) work out a Programme of Action for Human Resources Development for the Management and Development of African State Trading Organizations;

(c) draw up policy and operational measures for the enhancement of co-operation among African State Trading Organizations and with STOs of other regions of the World.

III. DOCUMENTS AND WORKING PAPERS

4. A number of documents on each of the main themes will be made available:

(1) Restructuring and reform of STOs and the need for developing trading entrepreneurship;

(2) Training needs: Perspectives of Human Resources Development;

(3) Review of the first phase of the project RAF/88/012 on "Selective Managerial Training for the Development and Management of State Trading Organizations in Africa South of the SAHARA";

(4) Measures for enhancing co-operation among African State Trading Organizations.

IV. EXPECTED OUTCOME OF THE SYMPOSIUM

5. The meeting is expected to:

(a) make proposals for policy directions and a planning framework for the streamlining of African STOs;

(b) prepare a Follow-up Plan of Action on Human Resources Development and Management Consultancy for African STOs; and

(c) formulate recommendations and indicate apropriate mechanisms for the enhancement of cooperation between African STOs as well as concrete trading prospects at the intra-African level.

V. PARTICIPATION

6. Participants are invited from all African countries (each country may be represented by executives of one State Trading Organizations or more) - government representatives might participate as observers.

VI. COST OF PARTICIPATION

7. The cost of participation at the symposium, including travel and daily subsistance allowance, will be borne by each participating organization.

VII. DATE AND VENUE OF THE MEETING

8. The meeting will take place from 23 to 26 October 1989 in Port Louis, Mauritius.

UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

ECONOMIC COMMISSION FOR AFRICA

Meeting of the Intergovernmental Group of Experts on Trade

Addis Ababa, Ethiopia
13-15 November 1989

ECONOMIC COMMISSION FOR AFRICA

Tenth Meeting of the Conference of African Ministers of Trade

Addis Ababa, Ethiopia
17-18 November 1989

LG/MAIR.08.

ALTERNATIVE PATTERNS OF DOMESTIC TRADE STRUCTURES AND MECHANISMS FOR THE ESTABLISHMENT OF MORE RATIONAL DISTRIBUTION CHANNELS AND DOMESTIC FINANCIAL MARKETS

INTRODUCTION

1. During the colonial period, the governors of many African countries set up an economic structure which gave pride of place only to the production and marketing of agricultural and industrial commodities that were meant for export to the developed countries. Because they were compelled to specialize in the export sector, African countries inherited from the colonial past, an embryonic demand in African countries.

2. In the early years of independence, African countries pursued the economic policy of their former colonial masters which tended to strengthen the external trade structure by which they earned foreign exchange. Few countries adopted measures aimed at developing domestic trade. The trading systems remained inefficient and unadapted to the needs of the majority of the population who are often isolated in the rural areas. Only in 1980 did African leaders collectively become aware of the urgent need to rationalize domestic trade in order to increase its contribution to national socio-economic development. The Lagos Plan of Action which African Heads of State and Government adopted in April 1980 specifically recommends that African countries should pay particular attention to domestic trade and to improving its contributions under which it is now taking place, so as to optimize its contributions to the socio-economic development of member States. To this end steps should be taken where appropriate:

(a) to promote internal trade at the national level, with particular attention to potentials offered by the rural markets;

(b) to rationalize channels of distribution with a view in particular to minimizing the number of intermediaries and to ensuring control thereof by indigenous enterprises whether private or public or a combination of both;

(c) to keep a balance between investment in the domestic trade sector and investment in productive sectors in such a way as to ensure that the growth of the former does not geopardize the growth of the latter.

3. This report will therefore briefly review the situation of domestic trade and unregistered border trade in Africa. On the basis of information gleaned from a few case studies on domestic trade and a preliminary note prepared by ECA secretariat on trans-border trade, this review will be carried out in the four chapters of this study. Chapter 1 will outline the current situation of domestic trade. Chapter 2 will be an analysis of unregistered border trade; Chapter 3 will briefly review the major problems and obstacles to the development of domestic trade while Chapter 4 will propose alternative ways of expanding domestic trade.

CHAPTER 1

Current situation of domestic trade in Africa

4. In this chapter, an attempt will be made briefly to describe the components of production and the main import items that are traded domestically in Africa.

An attempt will also be made to describe the main economic operators in this area and a description will also be given of the structure of domestic trade organization and distribution together with the various facilities provided for distributors.

Section I: local products being traded domestically

5. No analysis can be conducted of domestic trade without considering its very purpose. A description of the characteristic features of Africa's agricultural economy will enable us to identify not only the nature of the food and industrial products traded domestically but also the obstacles that must be overcome in the agricultural sector if domestic trade is to be developed. Agriculture can be considered the mainstay of African economies because it provides for the bulk of food, income and foreign exchange earnings. It remains, nevertheless, outward-looking. The plantation economy inherited from the colonial period continues to predominate. The activities of foreign and transnational corporations are geared to meeting the needs of the metropolitan countries. Such an economy tends to sidetrack farmers or keep them from producing for the country. It therefore provides no impetus for setting up domestic channels to offset outward-looking channels. Funding themselves marginalizing, in this way, the local population devote themselves to producing food for their own consumption.

6. Their subsistence economy is characterized by rudimentary farming practices. The implements used are simple ones like hoes, pick axes and spades. Subsistence economies use manual labour and animal traction and mechanized farming are to become established in most African countries. Female labour plays a preponderant role. Given the fact that subsistence economies are basically geared to meeting food needs, most rural products are food crops which, depending on natural factors and the tastes of local people, consist of cereals, roots, tubers and fruits. Indeed, the type of agricultural food production to be found in the subregions varies in accordance with climatic hazards. The West African subregion produces mainly cereals and, in some cases, roots and tubers. The major food products of countries of Central Africa are roots and tubers together with some cereals which are cultivated in the countries members of the Economic Community of Great Lakes Countries (CEPGL). In the Eastern and Southern African subregion, cereals, roots and tubers are grown together with some pulses, while countries of North Africa record high levels of fruit production which outstrips by far other food products.

7. It is clear from the foregoing that the range of goods produced is scarcely varied. Added to this, the scant attention paid by some African countries to the development of the informal sector explains in part why the volume of locally-produced agricultural goods is stagnating. It is worth noting that the technological focus and organization structures of certain African countries continue to promote the production of cash crops to the detriment of the production of foodstuffs. Such a policy compels the local population to develop a subsistence economy. African countries under population pressure can achieve self-sufficiency in food by counting on the farmer who has to produce not only to meet the needs of

his family but also to cater for part of the growing urban population. African countries should design policies aimed at boosting local food production.

8. Another group of food products traded domestically is composed of livestock products ranging from cattle, pigs, sheep, goats to poultry. According to FAO data[1] nearly all African countries produce meat but the volume has barely increased during the current decade. Drought, various animal diseases and low investments to control those diseases are among the factors which kept down the level of meat production.

9. Fishery products are another group of products traded domestically in Africa. Such products are meant for home consumption, the local market and the external market. Traditional fishing is practiced on such inland waters as lakes, rivers and ponds by individual fishermen having nothing more than a nylon fishing net or a canoe. Their produce is consumed at home or sold on the market. The bulk of the products of modern fishing goes to mostly foreign companies with modern equipment to process the products for export. Only a small part of the catch is sold on the local market.

10. The industrial policy pursued by most African countries after independence has given pride of place to extractive industries, most of which are in the hands of transnational corporations which exploit these industries for the benefit of the metropolitan countries. The profits reaped are not ploughed back into other industrial activities of the host countries and this has held back the industrialization of most African countries. Among the few African industries operating in domestic trade, light industries or consumer goods industries occupy a place of privilege. According to an ECA publication[2] the share of these industries in the total manufacturing value added in 1985 was 68.4 per cent for Nigeria with the food, beverage, tobacco, textile and leather sector accounting for most industrial manufacturing in that year. The processing of locally produced food in Zimbabwe accounted for 75 per cent of industrial sector production. In the Gambia, the processing of groundnuts and fish accounted for more than 75 per cent of industrial value added. That high proportion did not imply an increase in the total industrial output of that country because domestic demand far exceeded actual supply. The increase in registered imports of industrial consumer goods offset the decline in production arising from a number of factors which included:

(a) The costly supply of imported inputs;

(b) The distance of industrial production areas from the rural centres producing raw materials;

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[1] Source FAO Production Yearbook, Vol. 40.

[2] See Survey of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM.13/4/Rev.1.

(c) Defective industrial infrastructure; and

(d) Poor industrial management. Because the resulting production costs could not be contained, production slowed down leaving ever-rising demand unsatisfied.

Section 2: Imports of consumer goods featuring in domestic trade

11. Consumer goods are generally imported to make up for national production shortfalls. The performance of the food production sector of African countries in recent years has scarcely been encouraging. Many African countries were compelled to disburse a considerable amount of foreign currency to import food to meet the food requirements of their local population or to depend on aid from developed countries. Had African countries taken the necessary measures for the development of domestic trade, they would have avoided this situation. Indeed, it happens that certain regions within the same country are glutted with foodstuffs while other parts of that country are facing a severe food shortage. As can be seen from the table below, African trade in manufactures has been in persistent deficit.

Table: Trade in manufactured goods in African countries (in millions of $US)

	Exports		Imports		Trade balance	
	1981	1985	1981	1985	1981	1985
North Africa	2,102	2,140	24,884	22,893	22,782	20,753
West Africa	937	573	21,248	12,911	20,377	12,338
Central Africa	657	222	3,226	3,147	2,569	2,325
Eastern and Southern Africa	2,428	2,095	8,008	6,177	5,580	1,082
Total	6,161	5,630	57,458	35,128	51,197	39,498

Source: ECA secretariat, E/ECA/CM.13/4.

Section 3: Economic operators engaged in domestic trade

12. The economic system of any given country determines how domestic trade is organized and structured. Domestic trade stems both from the private sector in countries operating a market economy and from the State sector in countries with a centrally planned economy. In the private sector, all economic agents, including the State, participate in domestic trade. Locally-produced agricultural and other imported products meant for consumption, are traded by national and/or marketing co-operatives while wholesale trading generally from bases in the urban centres, is conducted by foreign trading companies which are sometimes subsidiaries of transnational corporations. Parastatals look after the distribution of certain local or imported consumer items.

Section 4: Distribution channels; physical facilities and financing of domestic trade

13. The analysis of distribution channels will give a clear idea of the type of operators involved in goods distribution. Distribution being a trading function whereby customers are supplied with a local or imported products, involves a number of intermediaries. Distribution channels may therefore be considered under two aspects: forms of distribution and facilities made available to distributors. With regard to forms of distribution there are wholesale distributions in large quantities and wholesale distribution dealing in small quantities and retail trade. Wholesale trading is carried out in urban centres and controlled by foreign companies. Some indigenous people are involved in wholesale trade but are unable to mobilize the substantial funds required for investment in this type of trade, particularly in terms of equipment, transport and warehousing facilities. Wholesalers distribute to semi-retailers or to retailers who, in turn, sell directly to consumers. It does happen, however, that wholesalers (who are often manufacturers) have their own retail distribution networks. This applies to the makers of alcoholic or non-alcoholic beverages in most African countries. The urban markets are better organized than those of the rural areas. This economic dualism is a feature of most African countries and is reflected in the products traded on the domestic market. It has been noted that rural trading mainly involves small quantities of agricultural food products and industrial consumer goods. When there is a good harvest, the marketable surplus is mostly routed to the urban centres. Manufactured goods are generally sold in urban centres where purchasing power is higher than in the rural areas. Imported items are sold in commercial establishments owned by foreigners.

14. With regard to the infrastructure required for the domestic marketing of products, rural areas have been found to be at a disadvantage in several respects. The existing infrastructure only caters for the collection of agricultural produce for transportation to the urban centres. Indeed, the highways are essentially built to link up with the major urban centres in order to supply them with foodstuffs while the ports are meant for the export of produce. Rail transport is generally used to carry heavy merchandise over long distances and railways, which have not made much progress since independence, are used to transport export commodities to the urban centres, ports and airports. In spite of the existence of national institutions set up to promote rail transport, the railway network is

developing very slowly. It plays a secondary role in the domestic distribution of goods. The other modes of transport in Africa can hardly be used for domestic trade. Cases in point are maritime transport (which is almost exclusively used for foreign trade) and air transport which happens to be costly in terms of the procurement and maintenance of aircraft.

15. With regard to warehousing and storage facilities, the rural areas seldom have appropriate warehouses or storage facilities for the preservation of perishable goods. The State builds warehouses in the rural areas only when it is involved in the marketing of food produce. What is more, rural markets are poorly equipped: shelters for sellers and their wares are rudimentary; the goods are generally piled up in make shift sheds (in the corners of dwellings or simply in the open air exposed to the vagaries of the weather) resulting in substantial post harvest losses. In the urban areas, distributors have warehouses concentrated in the port areas (for imports) and in the production area (for local manufactures). With regard to storage facilities, several countries have grain silos installed in the urban centres and belonging to the public organizations involved in grain marketing. Much remains to be done in order to ensure food security for all people.

16. The development of domestic trade requires investment financing and operating funds. The African banking system is made up of commercial banks and development finance institutions. It has been noted that banks are wary about financing domestic trading activities. This is because of the nature and vocation of those banking institutions. Established in Africa by transnational corporations, those banks are primarily interested in financing external trade which is monopolized by foreign business transactors. The banks generally grant short-term loans. To alleviate the difficulties experienced by farmers and small traders to obtain trade credit, certain African countries have set up agricultural trading institutions such as national agricultural credit schemes (to meet the urgent financial needs of small holders and traders) and are encouraging national development banks to grant loans to farmers and small traders.

CHAPTER II

BORDER TRADE IN AFRICA

17. It happens that a substantial proportion of local or imported products fail to find their way on to the domestic market. Indeed, many African countries especially, the landlocked ones, share boundaries with several neighboring countries. Such borders have been marked out by the former colonial powers and separate people having the same culture and social organization. Those artificial boundaries have, however, not been able to prevent the people from maintaining sustained social and economic relations, which are further cemented by trading links. This chapter will therefore review briefly the various forms that border trade can take, analyze the types of products involved in border trade and indicate the factors which affect this type of trade. The information contained in this

analysis is drawn from a preliminary note on transborder trade prepared by ECA secretariat. [3]

Section 1: Major forms of border trade

(a) Smuggling

18. Border trade takes many forms of which smuggling is the most common. Goods are smuggled on the basis of an agreement between suppliers and buyers on either side of the border regarding the type and quantity of goods and the mode of payment. Smuggling is made easy by the people who inhabit border areas and belong to the same tribe. The smugglers use porters to carry the goods across unpatrolled territory. Currency trafficking forms an integral part of border trade. Money is exchanged on the black market and the rates of exchange are flexible, varying from day to day. Smuggling is a drain on the resources of the countries concerned which varies with the type and quantity of products involved.

(b) Traditional markets

19. The traditional markets held once or twice weekly are a variant of border trade. People belonging to the same tribe as the sellers prefer to patronize such markets organized periodically across the borders to avoid the long walk to the far-located market centres. Such trade which is necessarily legally registered involves products stored in border area warehouses.

(c) Transit trade

20. Some products are sometimes smuggled into a country not for the local market but for trans-shipment and sale in other transborder regions or re-exportation for foreign curr It is obvious that this type of contraband is essentially conducted in such crops such as coffee which is after smuggled for export to overseas ports.

(d) Theft

21. Such type of unregistered transborder dealing mainly involves secondhand luxury goods such as secondhand cars and the contraband of costly items such as television and radio sets paid for in foreign currency but traded across the border in local currency.

Section 2: Types of products involved in unregistered transborder trade

22. This section takes a look at the products involved in unregistered transborder trade. The range of products traded varies from country to country depending on the supply and demand situation. The first group of products is made up of foodstuffs. Its profit making is the dynamic behind transborder trade, it has been noted however that the trade generally fulfills the basic requirements of

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[3] Source: E/ECA/TRADE/86

the population. It is therefore not surprising that a brisk trade is carried out in certain food items such as vegetable oil, flour, sugar, salt and beverages which are in great demand. Certain countries' surplus products such as wheat, maize, millet, sorghum, rice, cow peas, beans, peas, banana, cassava, ground nut, fruits and fish find their way easily through the contraband pipeline especially when they are hit by an import ban or whose import licences entail a painful negotiation of administrative obstacle course. However in a certain number of cases these products are officially marketed by semi public enterprises even if a considerable amount is lost to unregistered transborder trade.

23. Goods for general consumption constitute an important trading package in the unregistered trade depending on the level of supply and demand within a particular country rather than regular trading items in border areas even if there is a demand for certain items such as beer, soap, whisky, toothpaste, matches, plastic containers in those areas for immediate consumption. Transborder traders and smugglers also deal in products such as electronic equipment, television set, radio set, video tape recorders, cosmetics, ready made clothing, shoes, car spare parts, tyres, generating units and building materials. The spin-offs from such trading activities have transformed border town into flourishing centres.

Section 3: Factors affecting transborder trade

24. It emanates from the preceding section that trading in the market zones is confined to consumer goods. As time goes by this trade has expanded into products which are imported merely to cash in on their re-exportation. Many factors have conspired to bring about such a situation.

(a) Concern for profits

25. Some businessmen cashing in or some governments' inability to exercise adequate border control, smuggle contraband goods in or out thereby circumventing customs duties.

(b) Administrative procedures

26. Efforts to obtain import licence are often frustrating and costly involving commuting over several kilometers or spending several days in the capital to obtain the necessary papers to carry out a business deal. Even if businessmen want to remain within the law, they are put off by such difficulties into resorting to contraband.

(c) Tariff and non-tariff business

27. In some countries where customs control is not rigorous but where customs duties and other tariffs are very high, businessmen are likely to resort to smuggling which enables them to land huge profits notwithstanding the risk involved. Other non-tariff barriers such as health checks and regulations, quotas and import and export licences for certain products undoubtedly serve to boost the stakes for contraband. Despite restrictions, more consumers are willing to pay very high prices for certain luxury items thereby encouraging smugglers to sneak in such products. Goods subject to export ban are also attractive proportion for

smugglers in so far as the [illegible] goods at or ill below prices once they are out of the border.

(d) Exchange rates and monetary parties

24. Most business transactions in border areas are carried out in currencies of the two countries at rates of exchange which bear no relation to official exchange rates despite the existence of monetary regulations which member States are hard pressed to implement. Exchange rates variation tip the scales in favour of contraband especially if one of the currencies involved is strong and easily convertible. Weak or over valued currencies are an inducement to traders of a weak currency country to obtain the stronger currency of the neighbouring country in a bid to increase their purchasing power. Smuggling is also a short cut for strong currency dealers to obtain weak currencies at very low rates which enables them to acquire products from the weak currency country at very low costs.

(e) Price differentials

29. Differences in pricing and fiscal policies sometimes result in wide disparity in prices of the same products on two sides of the border. This anomaly automatically triggers off a movement of food products across the border by traders taking to [illegible] of unequal prices. Price differentials are also caused by the high costs of ferrying goods to the border zone of a country and by trade restrictions. Import bans on certain products in great demand also act as a fillip to border trade especially when the same products are available across the border. Price differentials in these cases are linked to demand elasticity rather than to the actual costs of the products. In some cases the poor quality of [illegible] counterparts. The high costs that consumers are willing to pay for some products are an inducement for traders to smuggle in the products to meet demand.

30. Price differentials also exist at the level of agricultural products. Farmers are generally expected to sell their produce to Government Marketing Boards which determine the prices of the produce to be marketed which are generally lower than on the [illegible] market. However when prices across the border are higher, farmers are tempted to channel their products through contraband across the border. Delays in receiving payment from marketing boards also encourage farmers to push their products through clandestine export channels.

(f) Ethnic affiliation

31. As has been pointed out earlier, borders spawned by the colonial era are artificial and even to-day cut by separating families into living on different sides of the border. Consequently it ensures that non-registered border trade is buttressed by the ethnic affiliation of the population living in the border areas who by their social, religious and cultural relations have developed similar consumption patterns.

(g) Shortage and non-availability of products on the market

32. The contraband of consumer goods towards neighbouring countries is one of the factors responsible for shortages of goods on the domestic market just as poor internal distribution accounts for the non-availability of goods in border areas. Such shortages of products on the markets are often plugged by illegal imports from neighbouring countries.

CHAPTER III

MAJOR PROBLEMS AND OBSTACLES TO THE DEVELOPMENT OF DOMESTIC TRADE

33. This chapter will touch briefly on the major bottlenecks confronting domestic trade in Africa.

34. The first problem lies with the very structure of the African economy. It is worth recalling that the colonial systems had set as their first objective the development of export crops to meet the needs of colonizing countries. After their accession to independence, African countries did not bring about any radical change in the production structures handed down by colonial powers; on the contrary they have continued to tilt towards cash crops into which new production outputs were invested in a bid to increase foreign currency earnings to defray the costs of imports and promotion development projects. However foreign currency earnings and external inputs have continued to fall short of expectation as a result of which levels of investment in the agricultural sector have not recorded any substantial rise. Indeed, according to an ECA publication (4) "The resources allocated generally proved inadequate and the level of domestic official investment in the agricultural sector remained far below the 20-25 per cent of total such expenditure recommended in APPER". This policy which was denied to boost cash crops production has relegated to the back seat the development of food crops to meet domestic demand. The agricultural production system current in most African countries is a contributing factor to the short falls in food production. Indeed, the soil is cultivated by small holders using rudimentary implements and applying little fertilizer. The difficulties experienced have led the farmer to confine his efforts to produce subsistence crops with an occasional attempt at producing an marketable surplus while his enthusiasm for farm work is being continuously eroded until he decideds to stop work and swell the ranks of the increasing rural exodus. The farmer is faced with other problems. He is often compelled to go out on his own in search of outlets for his products. He can hardly grasp the phenomenon of demand, effective or potential, for his products. This lack of marketing organization of consumer goods is another factor that accounts for the low volume of goods traded on the domestic markets.[4]

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[4] Source: Survey of Economic and Social Conditions in Africa 1985-1986, E/ECA/CM.13/3, p.89.

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LG/NAIROBI

INTRA-AFRICAN TRADE: SITUATION, PROBLEMS AND PROSPECTS

A GLOBAL ANALYSIS

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I. INTRODUCTION

1. During the 1980's, African governments have become increasingly aware that urgent action was needed to solve the serious economic crisis facing the continent and that the responsibility was entirely their own. It was also generally agreed that the crisis could only be solved by sustained, self-reliant action by the African countries themselves, although support from the international community at large was essential if they were to succeed in their efforts. A self reliant policy for African development was thus essentially predicated on economic cooperation within the continent, with the main focus on the development and expansion of trade among the African countries.

2. In the process of setting up economic cooperation structures in Africa such as the Economic Community of West African States (ECOWAS), the Communaute economique de l'Afrique de l'ouest (CEAO), the Mano River Union (MRU), the Preferential Trade Area for Eastern and Southern African States (PTA), the Union douaniere des etats de l'Afrique centrale (UDEAC), the Communaute economique des pays des grands lacs (CEPGL) and the Economic Community of Central African States (ECCAS), intra-African trade was made the catalyst and principal engine for growth and development. However, for reasons which we shall examine later, measures taken by these groupings have not led to any significant increase in the volume of intra-African trade. Consequently the impact on African development has been very limited.

3. The economic salvation of the continent, as seen in the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP) recently endorsed by the Economic Summit of the Heads of State and Government of the Organization of African Unity, lies in the realignment of consumption patterns with production patterns in Africa, hence the need to promote intra-African trade in order to ensure the economic viability of production units through the expansion of viable markets. The stress, in the above major policy document, is again laid on a series of measures converging on trade expansion among African countries which would eventually lead to the establishment of an African Common Market and an African Economic Community.

4. This study highlights main the features of intra-African trade with a view to identifying the major reasons why it has so far failed to respond to the measures already adapted by African countries to promote its expansion. It also examines the prevailing situation of Africa's trade in the world setting followed by a review of the current situation of intra-African trade. The analysis will highlight the commodity structure of the trade, the current flow of goods, the various obstacles to trade including tariff and non-tariff barriers, trade infrastructure and finance.

II. AFRICA'S TRADE SITUATION

(i) Africa's trade pattern

5. Africa continues to be basically an exporter of primary commodities to, and an importer of manufactured and capital goods from the industrialized world as shown in Table I. In 1980, Africa's imports of food, beverages and tobacco (SITC 0+1), chemicals (SITC 5) machinery and transport equipment (SITC 7) and other manufactured goods (SITC 6+8) from the developed market economies represented 70.5% of her total imports while in 1987, the figure was 64.78%. In contrast, Africa's exports of food, beverages and tobacco (SITC 0+1), crude materials (SITC 2+4) and mineral fuels and related materials (SITC 3) to the developed market economies represented 72.45% of her total exports while the corresponding figure for 1987 was 62.01%. The overall result showed a fall in both imports from and exports to the industrialized world of respectively 5.78% and 10.3%. Africa's exports of manufactured goods however rose from 4.25% to 9.85% between 1980 and 1987.

6. The picture for overall trade with the world shows a similar pattern, with primary commodities accounting for 85.5 per cent of total exports while manufactured goods represented some 13.0 per cent in 1989. It is also significant to note that African imports a relatively important proportion of her food requirements. In 1987 imports of food, beverages and tobacco (SITC 0+1) from world sources was 14.6% of total imports of which 10.28% was from the developed market economy countries.

7. Within the context of World trade, Africa's trade has not made any significant progress either. While in 1988, world trade rose by 9.5% in the wake of the economic recovery of the industrial countries following the world recession of the early eighties, Africa's external trade still shows a drop from 94.9 billion US dollars in 1980 to 51.8 billion in 1987. The trade balance of the region which showed a positive figure of 10.5 billion US dollars in 1980 resulted in a deficit of 12.05 billion dollars in 1987 1/. This poor performance was almost certainly due to a fall in the export earnings from oil which accounted for over 51 per cent of Africa's exports in 1987.

8. With a continuing deficit in Africa's trade balance since 1980, the trade index fell from 100 in 1980 to 57 in 1986, 64 in 1987 and was estimated at 55 in 1988 2/. The deterioration in the terms of trade of African exports in both due to a rise in the price of manufactured imports as well as a fall in the price of African commodity exports, although some metals exported by the region registered some price increases. However, these were overshadowed by the large fall in agricultural commodity prices.

1/ Figures computed from Special Table X, UN Monthly Bulletin of Statistics, May 1989.

2/ UNCTAD - Handbook of International Trade and Development Statistics, 1988.

TABLE I

AFRICA'S TRADE WITH THE DEVELOPED MARKET ECONOMIES

(in million US dollars)

Commodities	SITC CODE	IMPORT					EXPORT				
		1980	1984	1985	1986	1987	1980	1984	1985	1986	1987
Food, Beverages and Tobacco	(0+1)	90.6 (10.68)	7873 (12.02)	7534 (11.84)	6695 (11.08)	6569 (10.28)	7047 (7.42)	5676 (8.99)	5450 (9.19)	7012 (14.6)	6636 (12.8)
Crude mafs. (exd.fuels. oils,fats)	2+4	2475	2252	2261	1777	2061	5540 (5.83)	4139 (6.55)	3447 (5.31)	3292 (6.85)	3315 (6.39)
Animal and veg.oils and fats.	4	913	870	869	530	528	319	312	169	129	157
Mineral fuels and related materials	3	2646	1511	1404	1211	1312	61911 (65.2	38027 (60.25)	35369 (59.67)	22504 (46.88)	25302 (48.82)
Chemicals	5	5913 (7.0)	4373 (6.68)	4711 (7.4)	4818 (7.98)	5439 (8.37)	327	475	444	499	650
Machinery and transport equipment	7	27864 (33.03)	20383 (31.14)	19580 (29.2)	18453 (30.57)	18495 (28.95)	231	179	139	267	317
Other manufactured goods	6+8	16748 (19.85)	11140 (17.1)	10619 (15.69)	10496 (17.39)	10973 (17.13)	4067 (4.28)	2841 (4.5)	2661 (4.43)	3570 (7.43)	5109 (9.35)
Total to/from world		84358	65445	62610	60370	63876	94942	63112	59274	47997	51821

Note: Figures in brackets represent percentages of total imports/exports

Source: UN Monthly Bulletin of Statistics Vol. XLIII No.5 May 1989.

9. While Africa's trade structure shows a dominant relationship with the developed market economies, as earlier indicated, trade with other economic groupings remain relatively small, in particular with other developing countries. In recent years, there has been a significant increase in imports from South East Asian countries especially from the Newly Industrializing countries like Hong Kong, Korea, Taiwan and Singapore which supply an increasing amount of manufactured goods.

(ii) Intra-African Trade

10. In spite of serious attempts within the African subregional economic groupings to promote trade among the African countries, the level of trade has remained pitifully low in the eighties and has even declined when compared with the level in the sixties and early seventies when it averaged around 6 per cent of Africa's total trade.

TABLE II

INTRA-AFRICAN TRADE (SITC 0-9)
(in million US Dollars)

	Intra-African Trade	Trade with World	Intra-African Trade Share in Percentage
1960	350	5310	6.59
1963	380	6190	6.13
1966	550	8220	6.69
1969	560	10980	5.10
1970	650	12313	5.28
1975	1650	30340	5.45
1977	2190	45870	4.77

Note: Calculations are based on export figures only.

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976 and 1979.

11. In the 1980s however, intra-African trade has recorded a very low percentage averaging around 4.86% of total exports between 1980 and 1987 as shown in Table III. There is however a slight trend towards an increase. From 4.8% in 1985, intra trade rose to 6.05% in 1986 although it dropped back to 5.58% in 1987. It must also be noted here that the figures are based solely on recorded trade. There is, however, a considerable amount of trade taking place in border areas of African countries which is not officially recorded due to the illegal nature of the trade. It is difficult to give an estimate of the volume and value of this trade.

TABLE III

INTRA-AFRICAN TRADE (SITC 0-9)
(in million US dollars)

	Intra-African trade	Trade with World	Intra African trade Share in Percentage
1980	2973	94942	3.12
1984	2796	63112	4.43
1985	2892	59274	4.87
1986	2905	47997	6.05
1987	3035	51421	5.85
Average			4.86

Source: UN, Monthly Bulletin of Statistics, May 1989.

12. In terms of the structure of intra-African trade, three major commodity groups account for the bulk of the trade. These are food, beverages and tobacco (SITC 0+1), mineral fuels and related materials (SITC 3) and manufactured goods (SITC 6+8), with mineral fuels and related materials accounting for the largest share of the trade. From Table IV, it will be seen that in 1980, it represented 41 per cent of total intra-trade, while between 1984 and 1987, it registered an annual average of 32 per cent. Trade in food, beverages and tobacco has maintained a steady level of around 25 per cent while manufactured goods have been annually around 18 per cent. This overall trend has characterized intra-African trade for several decades which is highly revealing of Africa's production structure. Africa remains predominantly a producer of primary products although in the last decade some raw materials

are exported in a semi-processed form. However, in the last few years, there has been a slight increase in the export of manufactured goods both within and outside the region which indicates some changes in the production base, hence prospects for industrial development in Africa with the adoption of an appropriate mix of production and trade policies by African countries.

13. Intra-African trade disaggregated at subregional level shows that there is a tendency for concentration of trade between the countries of the subregion. This is not altogether surprising given the existence of subregional economic groupings and the relative trade facilitation measures in terms of distance and transport infrastructure. It is obviously easier to trade goods within a particular subregion than between one subregion and another. This is shown in Table V. In absolute terms, the value of trade between the countries of the Central African subregion ranged between 100 million US dollars in 1982 and 113 million US dollars in 1987 compared with much lower figures for its trade with the other subregions. The trade within the Eastern and Southern African subregion ranged from 481 million US dollars in 1980 to 392 million US dollars in 1987, again showing a much higher level of trade within the subregion compared with its trade with the other subregions in spite of a fall in recent years. North Africa and West Africa also exhibit the same trend.

14. Intra-African trade as a percentage of each subregion's total trade is shown in Table VI. In comparative terms, the Eastern and Southern African subregion accounts for a higher percentage of intra-African trade than the other subregions with North Africa contributing the smallest share. The percentage of intra African trade for the Central African subregion appears to be around the average for the African region as a whole while that of the West African subregion is slightly below the average.

15. In terms of commodity composition of intra-trade within each subregions, it was not possible to obtain disaggregated data. However, there is no reason to believe that it would be significantly different from the composition for the whole region shown in Table IV given the structure of the overall pattern of production and trade of the African region.

III. PROBLEMS OF AFRICAN TRADE

(i) Dynamics of world trade

16. A review of world trade situation shows a slow but inexorable trend towards the formation of trading blocs in particular, among the industrialized nations. The recent trade liberalization agreement between the USA and

TABLE IV

INTRA-AFRICAN TRADE STRUCTURE
(values in millions of US dollars)

	1983		1984		1985		1986		1987	
	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent
Food, beverages and tobacco (SITC sections 0 and 1)	727	24.5	683	24.4	744	25.9	747	25.7	779	25.6
Crude materials, excluding fuels (SITC sections 2 and 4)	270	9.1	284	10.2	288	10.0	324	11.2	324	10.6
Mineral fuels and related materials (SITC section 3)	1219	41.0	1003	35.9	996	34.6	815	28.1	889	29.2
Chemicals (SITC section 5)	131	4.4	163	5.8	197	6.8	256	8.8	239	7.8
Machinery and transport equipment (SITC section 7)	87	2.9	140	5.0	157	5.5	205	7.1	190	6.2
Other manufactured goods (SITC sections 6,8)	536	18.1	523	18.7	495	17.2	555	19.1	573	18.8

Source: UN, Monthly Bulletin of Statistics, May 1988 and May 1989.
Trade and Development Finance Division calculations.

TABLE V

INTRA-AFRICAN TRADE BY SUB-REGION
(million US dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
Imports to				CENTRAL AFRICA				
North Africa	7	14	22	37	28	68	65	[illegible]
West Africa	24	38	49	34	52	84	78	[illegible]
Central Africa	130	152	113	140	92	64	114	111
Eastern & Southern Africa	12	15	16	[illegible]	[illegible]	22	14	[illegible]
Developing Africa TOTAL	156	230	212	209	204	323	346	1[illegible]
Exports to				EASTERN AND SOUTHERN AFRICA				
North Africa	146	157	135	158	116	69	72	96
West Africa	29	23	17	15	5	6	3	2
Central Africa	126	157	122	117	107	66	99	75
Eastern & Southern Africa	481	541	553	447	421	361	432	399
Developing Africa TOTAL	869	927	829	779	719	500	606	572
Imports to				NORTH AFRICA				
North Africa	152	390	242	201	429	454	438	456
West Africa	173	176	245	126	53	60	50	1[illegible]
Central Africa	16	17	27	10	19	35	36	31
Eastern & Southern Africa	24	49	124	111	61	20	10	1[illegible]
Developing Africa TOTAL	368	553	639	456	562	569	537	5[illegible]9

TABLE V (cont'd)

	1990	1991	1992	1993	1994	1995	1996	1997
Exports to				EAST AFRICA				
North Africa	166	146	79	40	37	60	[illegible]	.
West Africa	1280	1174	971	800	1034	1067	955	..
Central Africa	76	64	49	100	210	97	112	...
Eastern and Southern Africa	.	2	1	48	1	9	7	.
Developing Africa, TOTAL	1530	1386	1108	1088	1315	1241	1154	...

Source ECA Statistical Database, 23 September 1998.

Symbols used ... = data not available
. = nil or negligible

TABLE VI

INTRA-AFRICAN EXPORTS

(Values in million of US dollars)

	1984			1985			1986			1987		
	Intra-African Trade	Total Trade	%Intra-African	Intra-African Trade	Total Trade	%Intra-African	Intra-African Trade	Total Trade	%Intra-African	Intra-African Trade	Total Trade	%Intra-African
North Africa	370.2	45771.7	0.8	321.0	31975.6	1.0	935.1	22565.4	2.3	729.5	25190.1	2.8
West Africa	1456.2	34348.4	4.2	955.3	20732.5	4.1	730.5	15580.2	4.9	1101.9	16250.1	6.7
Central Africa 1/	359.0	4237.1	8.5	328.1	4993.6	6.4	370.6	5331.2	4.7	292.6	6179.3	4.7
Eastern & Southern Africa 2/	617.7	10732.3	5.8	550.1	9124.6	6.1	568.5	7748.3	8.6	730.6	7731.6	9.5

Sources (i) I.M.F. Direction of Trade Statistics Yearbook, 1986.
(ii) I.M.F. Direction of Trade Statistics Yearbook, 1988.

1/ Excluding Sao Tome and Principe

2/ Excluding Botswana, Lesotho and Swaziland

Canada must be seen as a measure towards the strengthening of economic relations within the North American continent in the face of Europe's move towards an integrated economic entity. The Latin American countries pursue their own reinforcing of economic ties within the Latin American Integration Association (LAIA) and the Organization of American States (OAS) which binds the two halves of the American continent. In Asia, the Association of South East Asian Nations (ASEAN) is the institution which has set the pace for trade and economic cooperation among the countries of that region. Japan, the economic giant of the region, is seen as the catalyst for trade and economic development of that region which seems to be emerging as yet a third major economic bloc of the world given the highly populous nations of the region. In this framework, Africa remains a fragmented continent except for its subregional entities

17. The emergence of these tripolar trading blocs within the world, namely North America, Europe and the Far East does not presently seem to constitute a serious threat to the international trading system 3/. However, given the preponderance of its trade with Europe, the potential impact could be disastrous for African economies. The free flow of goods which will be subject to zero tariff within the European Community under the single European Act could make African manufactured products, in particular textiles, less competitive while there would be greater scope for the use of synthetics as substitutes to primary products from Africa. Similarly EC legislations regarding agricultural products could virtually close the door to African agricultural products.

18. A further development in international trade, which has discriminated strongly against developing countries, relates to the safeguard actions taken by the industrialized countries 4/. Although tariff concessions have been made by these countries under the Generalized System of Preferences and the Lome Convention, they have imposed a number of non tariff barriers such as voluntary restraint agreements, bilateral agreements for textiles, lower quotas on agricultural products, etc. which have greatly affected African exports in particular.

19. Such discriminatory practices which are contrary to the GAAT principles are currently subject to discussions under the Uruguay Round of Trade Negotiations. However, although the outcome is likely to be positive, overall prospects for Africa's exports remain bleak given the nature of its commodity composition and the international trade environment. While the volume of world trade expanded by 9 per cent in 1988, Africa's own exports rose by only 2.6 per cent compared to 1987. This was due essentially to the fall in the price of oil and Africa's export commodities whose prices either rose little or actually declined. In spite of these difficulties, there is no doubt that Africa must continue to pursue its efforts to increase its share in world trade.

3/ See UNCTAD Trade and Development Report, 1989

4/ See World Bank World Development Report 1989

However, the alternative to the continued dependency on the export of primary commodities subject to the vagaries of the international market must be the rapid development of intra-regional trade based on a restructuring of Africa's production pattern.

(ii) Obstacles to intra-African trade

20. It has been noted that officially recorded trade among the African countries has been stagnating over certain periods but generally declining over the years. The composition of the trade has also remained basically unchanged. There are several reasons for this situation. It is useful first to make a brief review of the economic background of the African region in order to situate the problems more precisely and examine appropriate solutions.

21. As it has been clearly articulated in the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP) 5/ the fundamental causes of Africa's under development and retrogression have their roots in the structure of the African economy, that is its pattern of production, consumption and exchange, the characteristics of which are:

(i) the predominance of subsistence and commercial activities;

(ii) the narrow production base;

(iii) the neglected informal sector;

(iv) the degraded environment;

(v) the urban bias of public policies;

(vi) the openness and excessive dependence of the economies on external factors and

(vii) weak institutional capabilities.

22. The low level of intra-African trade is a direct consequence of the above structure and unless African countries are prepared to bring about dynamic changes in their economic structure the removal of the immediate obstacles to intra-African trade, which will be analysed below, will not make any substantial impact on that trade and, by extensions, African development. It will be recalled that in the Lagos Plan of Action, African heads of state and government have stressed that internal self-reliance and regional cooperation through intra-African trade constitutes the core issue of African development. This is also emphasized in the African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP) 6/

5/ UNECA, African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP), Document E/ECA/CM.15/6/Rev.3, 6 July 1989.

6/ Ibid., page 10.

23. One of the major obstacles to intra-African trade is rooted in the African production structure. There is a clear divergence between supply and demand patterns. Most African countries are primary producers whereas their most pressing needs are manufactured and capital goods for which the industrial countries have at present a clear advantage. This divergence in supply and demand is also reflected with respect to raw materials for which the demand in African countries is very limited with the result that production is mostly for exports to the industrialized countries. The low demand for raw materials itself is related to the limited production base for manufactured goods in Africa.

24. Still on the subject of manufactured goods production and trade in Africa, intra-African trade suffers because many African countries are producing similar goods arising from the low technological threshold in the region. The result is that the difference in quality of the goods produced is not an incentive for trade exchanges particularly because of high transport cost and other trade-related constraints such as lack of credit facilities etc. On the other hand, the quality of goods produced in Africa suffers from a definite disadvantage in competition with similar goods imported from the industrial countries which are often not only of better quality but also relatively cheaper in spite of the transport costs. The quality control and technical standards in Africa are also a serious constraint to intra-African trade. To this must be added the psychological factor that imported goods are generally regarded as better than locally produced goods even if that is not necessarily the case. [2]

25. The expansion of intra-African trade must rely on the regularity of supply within the African continent at reasonable prices and quality. Until now, this situation has not prevailed in trade within the region due to the insufficient exploitation of African indigenous raw materials. Because of this, some African products have a large component of imported inputs which disqualifies them for trade with partner countries, especially within the subregional economic groupings, in particular since they do not satisfy the rules of origin applicable within the subregions. The lack of consistency of supply therefore drives importers to seek supplies from the industralized countries which not only guarantee supply but invariably provide credit as well.

26. Another important category of obstacles to intra-African trade relates to institutional problems. The paucity of trade information and marketing institutions have hindered trade within the region to a considerable degree; in particular with regard to food products. In some cases especially in cereals and food crops, supplies have remained limited to local demand or demand at the country level when other parts of Africa were suffering from shortages. This was evident during the last food crisis in Africa. Poor marketing channels and lack of information within the continent remove any incentive which African businessmen might have to promote intra-African trade. Lack of marketing skill, the complicated export and import procedures and documentation as well as lack of export incentives and appropriate government support to businessmen to do business within Africa have been serious obstacles to intra-African trade.

27. Exchange rate policies in African countries as well as the persistent use of convertible currencies for trade transactions in Africa constitute yet another impediment to trade. This is in spite of the establishment of payments and clearing systems established in the three subregions of Eastern and Southern, West and Central Africa for the settlement of trade balances as opposed to individual trade transactions. Some countries have maintained exchange rates which are considered unrealistic. Their currencies have been overvalued making their exports highly uncompetitive.

28. Physical problems relating to transport and communications have beset trade transactions in Africa for a very long time. Transport costs continue to remain high whether by road, rail or air due to the high cost of putting up the infrastructure, maintaining them, keeping rolling stock in running order, etc. Similarly, in spite of development in communications in Africa, it is easier to communicate with the industrialized world than within the region. African countries still suffer from a shortage of road transport vehicles as well as storage facilities especially for perishable goods. Such goods are more easily exported to the developed countries with regular air connections between Africa and their countries. Similarly, it is easier to transport goods from the developed countries to Africa than between African countries especially from one side of the continent to the other.

29. It has been variously argued that tariff barriers have been a serious drawback to intra-African trade7/.All the subregional groupings established for cooperation among African countries make provision for their reduction or removal. However, they have not found it easy to implement this because tariff constitute a major source of government revenue for many African countries. It is obvious that their removal would improve the competitive edge of African products in terms of price vis-a-vis similar products from the industrialized countries. Since all products generally face the same tariff level irrespective of their origin, the limited advantage gained from Most Favoured Nation treatment within subregional economic groupings have to face all the other non-tariff barriers discussed above and very often these outweigh the gain from tariff removal. However, this could help to increase competition within Africa although it would have the opposite effect with regard to the industrialized countries. Some African countries are also reluctant to remove tariff barriers altogether in order to protect their own industries.

30. Lastly, there is a set of factors related to the rural sector of African economies which represent a major obstacle to Intra-African trade. It is a well-known fact that in most African countries, some 75 per cent of the population live and work in the rural areas. Because of low rural incomes in Africa, their participation in the monetary economy is very limited with the result that they deprive Africa of a potentially wide market which could make industries economically viable through the exploitation of economies of scale. The other

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7/ See studies by the ECA Secretariat:

Documents E/ECA/CM.11/64/REV.1, 14 August 1985.
E/ECA/TRADE/24/REV.1, August 1985.
E/ECA/TRADE/85, August 1987.

related factor is lack of domestic trade structures which both limit rural production and restrict the size of markets. This untapped trade potential arises from a lack of appropriate rural development and incomes policy. Such policies that exist have been exploitative of the rural sector, leaving farmers, in particular women underpaid in order to ensure cheap food supplies to the urban population. If intra African trade is to serve as the true engine of growth in Africa, major policy changes will have to be brought about by African governments to harness the economic force of rural populations by bringing them into the mainstream of African economies.

IV. PROSPECTS FOR INTRA-AFRICAN TRADE

31. An analysis of the prospects for trade expansion among African countries cannot be divorced from the realities of the trends in the world economic environment. The current African economic crisis is generally attributed to the collapse of the international commodity market in the 1980s. It is also agreed that even the revival of that market is unlikely to bring substantial changes in the earning power of African countries from commodities. The prospects for their exports to the industrialized countries are extremely poor given the continued search for substitutes to the raw materials exported by Africa. This serious problem is compounded by the establishment of powerful economic blocs and their likely impact on African exports in spite of the Lome Agreement and other possible concessions arising from the Uruguay Round of Negotiations. From that point of view therefore, the prospects for intra-African trade expansion are good because Africa has no alternative but to implement its declared policy of self-reliance and regional economic cooperation which should culminate in the establishment of an African Economic Community.

32. In order to analyse the prospects for intra African trade development, it is sufficient to examine the structure of Africa's imports and exports to realize the vast potential that exists for trade in manufactured goods and in food commodities which Africa is currently importing from outside the region. As shown in Table I, the present structure of African production leaves considerable scope for expanding intra-African trade in raw materials which should serve as the backbone for African development

33. Earlier studies 8/ by the ECA Secretariat have shown that considerable potential exist for trade in the category of food, beverages and tobacco (SITC 0+1). Africa is a major producer of meat which is exported in the form of live animals while in the form of processed food, Africa is a net importer of meat and products. The problem is obviously the lack of plants and skills for processing the raw materials within the continent. Very few countries which are meat producers have meat processing plants. Similarly, potential

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8/ Ibid, page 14

exist for trade in cereals and fresh fruits and vegetables. Africa is a net exporter in the latter category of products whilst for cereals, trade is constrained by limited production due to lack of information on market potential and trade infrastructure. The scope for trade in manufactured goods is unlimited, as earlier indicated in our analysis, with the raw materials readily available within the continent.

34. The potential for intra-African trade is more evident in the absolute trade figures of the African region. Translated from Table 1, Africa's trade balance with all its trading partners is negative in all SITC Sections with a total deficit of 31.09 billion US dollars for the period 1984 to 1987 representing an annual average of some 8 billion US dollars although the bulk of the deficit falls during the last two years 1986 and 1987. The table clearly shows that the commodity groups which cause the largest share of the deficit are Food, Beverages and Tobacco (SITC 0+1), Chemicals (SITC 5), Machinery and Transport Equipment (SITC 7) and other manufactured goods (SITC 6+8). A restructuring of African production should considerably increase intra-African trade in these major categories and reduce substantially Africa's trade deficit.

35. Intra-African trade expansion, as earlier indicated, must be predicated on a complete overhaul of African production structures. However, the shortage of capital, the low level of scientific and technological application, the shortages of trained personnel, weak infrastructure, institutional rigidities, scarcity of entrepreneurial capabilities and the limited size of the private sector are all constraining factors to the restructuring of production in Africa. Because of such factors, joint production ventures as well as multilateral cooperation in banking, trade promotion, information, transport and communication are of prime importance. The framework for such cooperation has already been laid down in the establishment of subregional economic groupings such as ECOWAS, ECCAS, PTA, CEPGL, CEAO, UMU, etc. The recent creation of the Maghreb Arab Union covering Algeria, Morocco, Tunisia, Libya and Mauritania will provide the framework for the necessary cooperation in North Africa although Egypt and Sudan remain outside the framework. However, measures are under way for the establishment of a Preferential Trade Area for North Africa which would include these two countries.

V. INTRA-AFRICAN TRADE AND STRUCTURAL TRANSFORMATION

(i) Policy recommendations for intra-African trade expansion

36. The lop-sided structure of the African economy reflects the structure of its trade and it is therefore logical to argue that to promote intra-African trade requires alteration of the basic structure of the African economy. To achieve this, the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation(AAF-SAP) has called for a set of major policy decisions to be adopted by member countries. For trade expansion, vertical and horizontal diversification for the production of essential goods and services to meet the needs of the majority of the population in all sectors of the economy. The second aspect of this policy is to reduce dependence on mono-cultural and single commodity exports and its associated instability in terms of earnings.

37. The above major policy direction should be accompanied by directives including enhanced production and efficient resource use, greater and more efficient domestic resource mobilisation, improving human resources and building technological capacity and capabilities.

38. Improvement in the pattern of income distribution among different socio-economic categories of households is another important policy direction emphasized in the AAF-SAP. It has a direct impact on the size of domestic markets for domestic products and the alleviation of mass poverty. Allied to this is the need to pursue a policy of food self sufficiency in order to achieve a proper balance between the food subsector and the production of agricultural export commodities. Without an appropriate pricing policy for agricultural products, this objective will not be achieved. This will also require a reversal of the present trend of adopting policies that tend, especially in terms of price incentives, to create a bias against the food subsector and to favour the production of export commodities.

39. The realignment of consumption patterns with production patterns is another requirement which calls for change in consumption habits so that people will start to consume more of what is domestically produced especially in the areas of food, clothing and other essential consumer goods.

40. In conjunction with the above policy directives, the AAF-SAP calls for a number of policy instruments and measures to be applied. In an enumerative form, they are as follows:

(a) sectoral allocation of credit using credit guidelines that would favour the food subsector and the manufacture of essential goods;

(b) creation and strengthening of rural financial institutions;

(c) guaranteed minimum price for food crops managed through strategic food reserves;

(d) selective use of trade policy, including the banning of certain specified luxuries;

(e) mass education towards the consumption of domestic foods;

(f) strengthening intra-African monetary and financial cooperation as well as payments and clearing arrangements;

(g) differential export subsidies, removal of trade barriers, encouraging barter trade;

(h) bilateral and multilateral agreements on primary commodities;

(i) creation of rural institutions to support cottage and small industries with emphasis on indigenous technology, domestic finance, rural infrastructure and women participation;

(j) and last but not least, restructure production from cash crops and primary commodities to production of food and consumer goods.

(ii) Specific measures for intra-African trade expansion

41. Having earlier analysed the various obstacles to intra-African trade, it is worthwhile to pinpoint the measures which are specifically directed towards the removal of these obstacles. A number of such measures have already been examined as policy recommendations. The measures below would have the necessary reinforcing effects to the policy measures but would not by themselves make any substantial impact on intra-African trade. They are however vital for its expansion

42. The following is a summary of specific measures which have been analysed and submitted to member countries in several studies prepared by the ECA Secretariat since the beginning of the decade. Several of these have been endorsed by the Conference of African Ministers of Trade in 1985.

1. Financial measures

(a) The removal or reduction of tariff as well as non-tariff barriers including quotas, prohibitions, foreign exchange control, etc. through negotiations both within the framework of subregional economic groupings and outside such the framework in order to promote intra-subregional trade

(b) The provision of credit facilities for intra-African trade by establishing an Export Credit and Guarantee System (ECGS)

(c) The provision of tax and other financial incentives for exports to other African countries

(d) Easier access to investment and trade financing institutions and mechanisms for regional businessmen including insurance services

(e) Increasing use of existing payments and clearing systems

2. Legislative measures

(f) Improvement in trade licensing procedures

(g) Simplification and harmonizations of trade documentation and procedures

(h) Standardization of trade legislations, rules, regulations and tariff procedures

(i) Increased use [illegible] transborder trade

(j) [illegible]

(k) Improve rural income to open rural markets to manufactured goods

(l) Harness the resources and expertise of transnational corporations to promote intra African trade through appropriate legislations, incentives and controls.

3. Institutional measures

(m) The creation of trade promotion institutions and other support services including chambers of commerce

(n) Development of a trade information network in collaboration with other African countries.

(o) The establishment of joint production and marketing enterprises

(p) Institutional support for organising buyer/seller meetings, trade fairs and African trade missions

(q) Improve the quality and standard of African goods

(r) Provide adequate training for trade operators

4 Physical development

(s) The improvement of communication channels both domestically and externally

(t) The development of domestic trade marketing channels and infrastructure

(u) Increased processing of Africa's agricultural and mineral products

(v) Improvement of road, rail and other internal transport systems

(w) Promote African airlines, shipping and freight services.

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RECENT TRENDS AND DEVELOPMENTS IN INTERNATIONAL TRADE RELATIONS

I. INTRODUCTION

1. Since the ninth session of the Conference of African Ministers of Trade held in 1987 a number of important developments have taken place in international trade relations. Among these are: (a) the seventh session of the United Nations Conference on Trade and Development (UNCTAD) which was held in July 1987; (b) the Uruguay Round within the GATT framework; (c) the ACP EEC negotiations on the new Lomé Convention; (d) the Single Europe Act of 1992 unifying the European trading bloc; (e) bilateral arrangements between the United States of America and Canada; and (f) recent reforms in the socialist countries of Eastern Europe. These have combined to shape the world trade environment for the years to come.

2. The network of world trade, its composition and direction have undergone considerable transformation during this decade. A variety of macroeconomic factors have contributed to this transformation which alter the conditions under which countries and regions trade with one another. The impact of relatively short-term factors on trade, which include financial instability, fluctuating exchange rates, declining prices of primary commodities and increased levels of indebtedness, have adversely affected Africa more than other developing regions. In addition, scientific and technological progress has introduced new products and services in world trade. Experience shows that countries with high levels of industrialization had the largest share of manufactures in their trade. Paradoxically, these developments acted as a severe brake on Africa's capacity to share the benefits arising from improved international trade relations.

3. This report therefore examines Africa's external trade performance since 1987 in the light of overall trends in world trade enumerated above. In particular it focuses on results of the negotiating process under the auspices of: (a) the United Nations Conference on Trade and Development; (b) the General Agreement on Tariffs and Trade; and (c) the ACP-EEC co-operation arrangement. The paper concludes by isolating major problem areas of importance to the African countries and makes proposals for action to be taken to ameliorate the situation in the 1990s.

II. AFRICA'S EXTERNAL TRADE PERFORMANCE SINCE 1987

4. At the time of the Ninth Conference of African Ministers of Trade in 1987 the world merchandise trade was expanding at an estimated 5 per cent, well above the growth rate recorded in the two preceding years. In 1988 according to GATT, the world trade increased by 14 per cent over the preceding year beinging the value of world merchandise exports to a new record high of US$2,880 billion. Thus continuation of that upward trend albeit at a lower rate in 1989, is a result of the industrial economies experiencing one of their longest recovery periods.

5. Africa, however, did not share in that boom, and the above developments are in marked contrast with the situation in Africa's trade relations. In the words of the Executive Secretary of the ECA, developing Africa's external sector more than stagnated because of the general decline in the region's export performance. During the year 1988, African exports increased by only 2.6 per cent to reach 56.3 billion US dollars, as against the rate of 8.7 per cent in 1987. In volume terms the rise of exports was a mere 0.1 per cent. The situation for 1989 is not expected to dramatically change this dismal picture since according to the ECA Secretariat's estimates, exports growth will be minimal in 1989 at only 0.8 per cent.

6. This situation is explained by the fact that despite the revival of international trade, African countries did not take appropriate measures to take advantage of the situation. Hence, the disappointing export performance of the region was mainly attributable to the fall in prices of many commodities of export interest to Africa. For example, oil prices dropped by around 17 to 19 per cent with resultant contraction of oil export earnings by 2.9 per cent in 1988. The price of cocoa fell by 50 per cent between mid-1987 and mid-1989. With the exception of copper, sugar and diamonds, the situation for most non-oil primary commodities did not show signs of improvement in the last year. For instance, coffee prices were weak and fell especially for robustas that are mainly produced in Africa. Similarly, export earnings from cotton for Mali and the Sudan as cotton prices lost nearly a third. Moreover, while sugar prices gained around 50 per cent on the free market, this made a very limited impact on the region's fortunes since sugar constitutes only a minor fraction of total exports. Whilst the metals boom, particularly in copper, was of greater importance to Africa, its two main producers, Zaire and Zambia, could not unfortunately fully benefit from higher prices due to production problems among others.

7. While the region's total exports in value terms recorded only a relatively modest growth, its imports in 1988 grew at an estimated 8.2 per cent and were of the magnitude of US$69 billion. The consequences of this higher growth rates of imports were that the trade balance of the region worsened and reached US$12.7 billion as compared with US$8.9 billion in the preceding year. In this regard it has to be recalled that Africa last recorded a surplus in 1980. Ever since then the cumulative trade deficit (for the 1981-1988) period has grown to US$57 billion. This was despite intensified efforts of many African countries aimed at implementing import limitation policies in the face of sagging export earnings, increasing debt service obligations and stagnating real resource flows. No relief can be expected from the year 1989 since imports are estimated to grow at a higher rate than that of exports.

8. Since 1973, export volumes have remained stagnant or even declined in most African countries. Many of the more detailed highlights regarding the performance of selected African economies (Algeria, Côte d'Ivoire, Egypt, Ethiopia, Morocco, Nigeria, Sudan and Zaire) which between them account for nearly 61 per cent of Africa's total annual output that were discussed at the 15th session of the ECA Conference of Ministers in March 1989, are still valid. It is nonetheless important to reiterate production constraints have contributed to sagging export earnings to a no lesser extent than falling world prices.

The most recent examples are those for copper and coffee. According to the World Bank estimates, if Sub-Saharan Africa had maintained its 1970 market share of non-oil primary commodity exports and provided prices remained the same, export earnings of these countries would have been US$9-10 billion a year higher in 1986-1987. This difference is almost equal to the region's total debt service payments during these years.

9. Perhaps one way to appreciate some of the concerns relating to Africa's external sector is to compare trends in the region with those in other parts of the world. A main distinctive feature of the continued expansion of international trade is that it has largely by-passed the African region. Thus it has had very little stimulating effect on its trade and economic development. Over and above, the seemingly higher growth rate of GDP in 1988 and part of 1989 in the continent was mainly attributable to the exceptional good weather conditions recorded in many African countries. With Africa's exports growth rates below those of the world average the only result can be that of the shrinking share in the overall world exports. And indeed, while in 1977 African exports constituted 4.4 per cent of the world total, this proportion has continued to decline all through the 1980s reaching about 2.1 per cent in 1987. There was a further drop to 1.9 per cent in 1988. Although the same trend is evident for other developing regions, the relative decrease in their world market shares was much smaller. This process of gradual marginalization of Africa in the world trade relations is one of the most alarming phenomena in the 1980s and it is closely linked to the factors discussed below.

10. One of Africa's major weaknesses is the region's inability to change its production and consumption patterns. There is therefore little evidence to suggest any alternative scenarios. The most vexing question is whether Africa is destined to continue to depend on a small and generally rigid production base, characterized by little dynamism, to meet the needs of its growing population? However, possibilities of diversifying the export commodity composition in the immediate future seem rather limited in the light of the present trends. This is because there have not been any significant changes in the structure of African external trade in the past few years, apart from varying the share of mineral fuel exports, that occupy between 60 and 70 per cent of total Africa's exports. Over and above is the element that these changes are functions of price fluctuations. In 1988 exports of manufactures managed to record certain measure of success, but they mostly benefitted from better average price trends, rather more so than from increased export volumes. It would therefore be preposterous on the basis of these trends to talk about any meaningful export diversification.

11. The same lack of diversification also relates to the geographical distribution of Africa's external trade. Western Europe and North America remain Africa's main markets and principal sources of supply, with their share in 1987 being respectively 81.0 per cent and 74.3 per cent. Despite the fact that import sources are becoming increasingly more diversified than are export destinations, regional patters of both exports and imports remained broadly the same over the 1980s with no significant changes occuring in the product structure of major African exporters. Trade with other regions continued to be small, particularly trade with other developing countries. There was, however, a significant increase in imports from certain Asian countries, especially from the newly industrialized ones like Korea, Taiwan and Singapore that appear to play an increasing role as suppliers of manufactured goods to the continent.

12. Projections also show Africa's principal export commodities will earn relatively less and less on the world markets in the 1990s. Thus, taking 1980 as price baseline, wholesale price indices for selected commodities during the 1985-1987 period were only higher in the case of cotton, logs, groundnuts and tobacco. All other exportable goods were either equal or below the level of the two preceding years. It is widely believed that the present low prices for primary commodities are very close to historic trends and are unlikely to increase in the foreseeable future. At this juncture it would be, perhaps, opportune to recall that far-reaching changes are currently taking place in the global pattern of trade and production. As price forecasts up to the year 2000 for Africa's major primary commodity exports (coffee, cocoa, tea, cotton, copper, tin, nickel, bauxite, iron ore etc.) do not show any possibility to increase, it is this sort of background which removes any hope of a revival of economic growth predicated on recovery of primary commodity prices and say otherwise would seem to be misplaced. Moreover, Africa is going to be affected more than any other region by the projected slow growth in demand for primary commodities.

13. The reason why primary commodity production dominates the African economic activities is because of the region's failure to achieve the minimum policy objectives and targets set out in the Lagos Plan of Action and the Industrial Development Decade for Africa (IDDA). For instance in 1985, manufacturing value added (MVA) in Africa grew by 3.2 per cent, following negative growth trends in 1983 and 1984. There were also negative growth rates in 1986 and 1987. The picture in other developing countries in Latin America and the Caribbean shows that theirs grew by 3.6 per cent and 6.7 per cent respectively in 1986 and 1987. Corresponding figures for Asia and the Pacific were 5.9 per cent and 10.0 per cent respectively.

14. The sum total of Africa's trade trends in the face of the declining unit value of exports to that of imports resulted in deteriorating terms of trade and weakening of its purchasing power. Consequently, African countries found it increasingly difficult to maintain their levels of economic growth and development. It goes without saying therefore that an urgent need exists for considerable transformation in the approaches to the role to be played by external trade in the process of Africa's economic development. This aspect has been again advocated in the "African Alternative Framework to Structural Adjustment Programmes" (AAF-SAP) which was adopted by the ECA Conference of Ministers in April 1989. In other words, without real transformation of the production base, there could be no way of diversifying away from the existing monoculture of exports with all the intrinsic shortcomings.

15. These trends also reveal that the region's economic growth has lagged behind not only the growth of other developing regions but the world as a whole. Of the 50 African countries, over 20 of them have experienced negative growth rates in the 1980s since in only six countries has growth exceeded 2 per cent. The negative trends of the 1980s were in contrast to those of the 1960s and 1970s, except that they also were not across the whole continent as is the case for the most of the 1980s. It would not therefore be off the mark to conclude that developing Africa's overall growth rate is now virtually at a standstill.

III. UNCTAD VII

16. The seventh session of the United Nations Conference on Trade and Development (UNCTAD VII) in Geneva from 9 July to 3 August 1987 was preceded by a number of regional group preparatory meetings. Thus the African Ministers of Trade Preparatory to UNCTAD VII meeting in Addis Ababa from 16 to 19 March 1987, adopted the Declaration of African Ministers Responsible for Trade and Development Preparatory to UNCTAD VII. This was Africa's common position on trade and development issues in line with the agenda, that had been negotiated by the various groups. It also represented Africa's contribution to proposals that were submitted to the Sixth Ministerial Meeting of the Group of 77 and subsequently to the Seventh Session of the United Nations Conference on Trade and Development itself.

17. The end result of deliberations and decisions taken during UNCTAD VII may indeed be global but Africa also expected that some of its specific concerns would be reflected, at least taking cognizance of its Declaration, particularly since from the point of view of the African Ministers responsible for Trade and Development, the priorities for action are dictated by the objectives of developing (their) economies within a more favourable international environment. Similarly in the area of international trade, they indicated what needed to be done. For instance, "the removal of all tariff and non-tariff barriers against products of particular interest to African countries including tropical products and processed raw materials". They called for the improvement of the Generalised System of Preferences in terms of giving wider coverage to agricultural products of export interest to African countries.

18. Perhaps it is such concerns which ought to be the yardstick in assessing some of the results of UNCTAD VII from an African standpoint. It is also worth recalling that UNCTAD VII unlike its predecessors had an agenda with an Annex of Understanding. It took a very long time to reach an agreement. Implied in this was the fact that those items which had not been included from the outset were assumed not to deserve priority attention even if they were eventually incorporated in the Final Act of UNCTAD VII. That was the case with such issues as (a) resources for development, (b) commodities, (c) least developed; (d) economic cooperation among developing countries. Another feature of the Seventh Session was the rigid stand of Group B regarding its view on the standing of the G.77 (THE HAVANA DECLARATION) document. From the latter's point of view it was inadmissible because as they often reminded the G.77 that document had been prepared outside the framework of UNCTAD.

19. However, this having been said, what eventually transpired at the end of it all was the adoption by the Conference of the FINAL ACT OF UNCTAD VII (Doc. TD/350). The contents of this document represent the first response of the international community to the challenge embodied in the central theme of the agenda that had been adopted for the conference lying emphasis on revitalising development, growth and international trade.

20. Two years has elapsed since then and preparations have already began to set the scene for UNCTAD VIII. The extent to which the decisions taken at UNCTAD VII have advanced the African cause in the light of the African aspirations as reflected in the region's Declaration would be rather

difficult to establish. First because UNCTAD decisions are normally global in nature. Secondly, African governments rarely volunteer such information to the secretariat inspite of the fact that the latter makes most the preparations to ensure full and effective African participation. It can nonetheless be stated in conclusion that a lot of what was stated in the Declaration by the African Ministers Responsible for Trade is reflected in The Final Act of UNCTAD VII. It is now a matter of seeing that these decisions will be implemented.

IV. THE SUCCESSOR AGREEMENT TO THE ACP/EEC LOME III CONVENTION

21. The Lomé III Convention is a trade and economic arrangement between 66 African, Caribbean and Pacific (ACP) States on the one hand, and 12 European Economic Community (EEC) Member countries on the other hand, entered into operation from February 1985. It expires in February 1990 and it is in accordance with the mutually agreed procedures that the process of re-negotiating a Successor Arrangement was launched 18 months before the expiry on 12 October 1988.

22. At the beginning of Lomé III there were only 66 countries on the ACP side and 10 countries on the EEC side. In the interim, Angola and Mozambique joined the ACP Group while Portugal and Spain joined the European Community. This enlargement of membership may have certain implications on the future Conventions in terms of some specific provisions and resources to be made available for its implementation.

23. Up to this moment in time, it is safe to say that the Lomé Convention seems on the whole, to have upheld its main objectives. Particularly in respect of funds under EDF and the number of protocols including the Stabex and Sysmin. Nearly five years of its operation have shown that some of the targets and broad objectives that had been agreed upon were not fully realized. For instance, the rules of origin have not helped to fundamentally enlarge Africa's production, exports and consumption patterns of African products in the Economic Community. Similarly, Africa's export share of the Community market has tended to decline despite the so-called «free access» for ACP products. Stabex which is indeed an innovative mechanism has a number of areas that need improving. The most important factor in this regard is the necessity to elevate this machinery from its post-mortem character to include characteristics which should be preventive and curative. More importantly, in the light of the present development needs of ACP countries, the Lomé III Convention has several grave shortcomings since it does not effectively tackle such problems as external indebtedness, declining export earnings, industrialization or structural adjustment programmes.

24. It is important to point out that there were two opposite views when the negotiations started. On the one hand, the EEC was of the opinion that there was not much that needed to be changed as compared with the Lomé IV Convention apart from a few improvements here and there but not on matters of substance. The ACP Group, on the other hand, held a very opposite view. They had entered the negotiation process hoping to see substantial changes in the approach to the whole relationship under the Convention. In other words, they wished to negotiate substantial changes as substantiated by such arguments as their losing the share of the community market. In their view, the enlargement of the EEC was not matched by benefits enjoyed by the ACP Group. However, some progress has been made since the beginning of these negotiations in bringing these two positions close together.

25. For instance, principles of non-discrimination and dialogue have yet to be properly translated into relevant provisions of the Convention. In the same vein, the question of the external indebtedness of the ACP countries met with complete refusal on the part of the EEC to engage the ACP Group on that subject, let alone to have it included on the agenda of the negotiations. The concept of interdependence is also painstakingly recognized by the Community but then they have difficult interrelating it with effect. There are other difficulties in the negotiations, some of them are associated with attempts of the EEC to play down the likely impact that the new Convention will have to bear from the Single Europe Act which envisages a unified European market by 1992. Similarly, adverse effects on the ACP countries are likely to stem from the EEC proposal on tropical products made in the Uruguay Round of GATT negotiations.

26. The area of primary commodities, Stabex and Sysmin has seen the least progress in the negotiations, yet these are the most crucial pillars for the ACP Group. With the above issues being a central blockage in the negotiations for a new Convention a problem arises whether any real advantages will be derived by ACP States from Lomé IV should it be finally concluded in the light of the far-reaching requests made by the ACP Group for inclusion such as:

(a) a long-term programme for greater local processing of ACP primary commodities;

(b) increased support by the EEC for the International Commodity Agreements, in particular those of interest to ACP countries;

(c) special temporary arrangements providing for purchases by the Community of minimum volumes at minimum pre-established prices of certain key ACP commodities;

(d) improved functioning of Stabex and Sysmin, including such crucial issues as simplification of disbursements and utilization of the resources transferred under the scheme, increased funding, lower dependency and fluctuation threshholds etc.

27. It is rather difficult to pass judgement on many of these issues since at the time of writing this report, the European Community had not as yet reacted to the ACP's proposals and despite the fact that the overall attitude of the EEC members was rather negative to say the least.

28. Another important area relates to industrial co-operation and development. Progress has not been encouraging either although a certain broad agreement has emerged. In other words, the Community has consented to assist the ACP countries in developing viable indigenous industries. However, this should not disguise the fact that the two sides display quite wide differences in approach and emphasis on the subject matter. In the light of previous experience, what is required is a fundamental re-orientation in the very philosophical concept of industrialization if the EEC is genuinely keen to assist the ACP countries in that field.

29. The lack of progress in the general trade regime is second only to that in the area of commodities which is a logical extension. From the very start of the negotiations the approaches of the sides were very much wide apart. The ACP on the one hand, stressed the need for significant improvements in the preferential regime it enjoyed under the Lomé III Convention. The EEC on the other hand, held the view that there was only limited scope for such improvements and that the blame for the shrinking share of ACP exports in the Community markets was due to low competitiveness on the part of the former's products. The position of the EEC that stems from its proposals in the Uruguay Round, the preparations for the Single Europe market and ACP/EEC negotiations themselves, demonstrates clearly the intention by the EEC to put an end to the historical preferential regime as it existed throughout the lives of the previous Conventions. Given that situation, the ACP States must give priority to improving the efficiency of their domestic production in a significant way. This apart they ought to embark on a structural transformation process in order to increase the competitiveness of their exports diversify their commodity composition and possible re-orient the direction of suchexports so as to lessen the dependence on the EEC market.

30. Against this background and in the light of the fact that the EEC will remain the largest trading partner for the ACP Group in the years to come, emphasis in the negotiations must be put on the facilitation of ACP exports to the Community and preservation of certain acquired preferences, at least for selected products of major importance to African ACP countries. Measures in this respect could include the following:

- removal of all tariff and non-tariff barriers for the ACP exports to the Community market, except for those covered by special arrangements and protocols;

- improved operating procedures for a number of special protocols and arrangements like beef and veal, bananas and rice etc.;

- special preferential regime for ACP exports of manufactures and processed and semi-processed commodities as part of the general policy aimed at assisting ACP countries in their industrialization efforts;

- relaxation of the rules of origin as part of the above, in order to reflect the existing level of the industrial capacity of the ACP States; and

- special agreements concerning agricultural exports from ACP countries.

31. There are still a number of key issues to be resolved of which the main stumbling block is the trade component of the Convention. The ACP Group must, therefore, recognize that this is the time more than ever before to display unity and solidarity in its ranks. They must press for satisfactory solution to such key issues as trade and development. The success of the new Convention will therefore be measured by the extent to which it will respond adequately to the development needs and programmes of the ACP countries' economic recovery and self-sustained growth.

V. THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS

32. Uruguay Round of Multilateral Trade Negotiations within the GATT framework was launched in September 1986. The Uruguay Round Negotiations are very much advanced in terms of progress in certain areas, however judgement about the outcome of the negotiations themselves is still premature as they are only at mid-point. However, the beginning of substantial engagement over important issues has been particularly emphasized by the successful conclusion of the meeting of the GATT Trade Negotiating Committee last April. Despite the overall optimistic mood of the more developed participants, there remain serious flaws, some of which are potentially fatal. For instance:

- there has not been much diminution in the existing network of discriminatory export restraint arrangements which continue to constrain trade in such crucial areas as textiles and clothing;
- levels of support to agriculture remain unacceptably high;
- the possibility of resort to unilateral or bilateral protection is still reserved.

33. Another characteristic feature of the Uruguay Round is the low participation of African countries, especially those South of Sahara which possibly emanates from the very framework of GATT that does not readily accommodate the major problems and priorities of developing African countries' economies. Only a few African countries like Kenya, Egypt and to a certain extent Nigeria, Ghana and Tanzania have been actively involved in the negotiating process. This lack of African active presence in the Uruguay Round is in striking contrast with substantial numbers of African countries that are either among the Contracting Parties to the GATT, or are de facto members, i.e. apply the GATT provisions. Among the reasons for this apparent apathy are lack of resources for full preparation and participation in these meetings. Over and above, there is a wide-spread feeling among African governments that individually and collectively, they are small actors on the world trade scene and have little capacity to negotiate significant concessions beyond those of a general applicability like "tugging" along the Most Favoured Nation (MFN) principle. Experience with the operation of the Generalized System of Preferences (GSP) within the GATT framework only underlines the fears that in trade, equal treatment of unequals is unjust.

34. While the developing countries have seen their richer competitors enrich their own subsidy programmes since the beginning of the 1980s, the industrialized countries like the United States have initiated countervailing duty cases with great frequency and zeal against competing imported products. On the basis of data derived from a recent World Bank Report on that issue countries that use countervailing duty regimes (excluding Chile) decided a total of 347 cases between

1980 and 1986. Out of this number some 279 or 80 per cent targeted the developing world, with the USA initiating the majority of the cases cited above. It has to be stressed that since the Tokyo Round, little progress has been made in disciplining the use of subsidies by the industrialized nations, at least those of major importance to the developing countries such as agricultural export subsidies. Even the United States - by far the most frequent user of countervailing and anti dumping measures to offset the subsidies of the others - have added to their agricultural subsidies, as well as certain other industries as the production of semi-conductors.

35. Another reality of the African situation is that they have little to offer in terms of cuts in tariffs at the negotiating table. The recent tug-of-war between the European Community and Japan on steel or between the EEC and the United States of America on meat and fruits or the EEC's offer in the Uruguay Round on tropical products made conditional on counter offers by other industrialized countries are just too clear an indication of negotiating stances, which African countries could not ignore in terms of economic muscle flexing. Moreover, the approach adopted by the developed countries in the current round of Multilateral Trade Negotiations tends to suggest that their ultimate objective may include more managed trade in areas of particular concern to their counter parts in the developing world

36. It is partly in the light of the above that with funds provided by the African Bureau of the United Nations Development Programme (UNDP), the Project RAF/87/157 "Support to Africa in the Uruguay Round of Multilateral Trade Negotiations and to the External Sector of African Countries" was initiated and is presently executed by UNCTAD in collaboration with ECA Secretariat as well as in association with the OAU

37. Activities under this project focus particular attention on enhancing the capacity of African policy makers towards preparing and responding to developments in the negotiations. Thus, training is provided through studies, dissemination of training materials and seminars at national, subregional and regional levels. The project is also geared to providing advisory services to the African member states during the negotiations themselves. However, because of the late start of the project, it was decided to organize two post-Montreal seminars although originally they had to precede the Mid-Term Review Meeting in Montreal. The first of the two was intended for the countries of Central and West African subregions whereas the second one was for the countries of Eastern and Southern African subregions. The main topics of attention included: (a) tariffs and non-tariff measures (b) agricultural, natural resource-based and tropical products (c) functioning of the GATT system and GATT articles; and (d) new issues such as trade related aspects of intellectual property rights (TRIPS), trade-related investment measures (TRIMS) and services.

38. What is evident so far is that the Uruguay Round is unlike both the Kennedy and Tokyo Rounds. The difference is seen first in the inclusion of completely new issues that previously were outside GATT machinery, i.e. TRIPS, TRIMS and trade in

services. Secondly, there is a new focus in the approach to negotiations with wide implications for the developing countries which was put in a concentrated form in the Ministerial Declaration in Punta del Este where it was stated that problems of the developing countries would be addressed such as

> "... serious difficulties in commodity markets and the importance of an improved trading environment providing, inter alia, for the ability of indebted countries to meet their financial obligations and also
> "...contribute towards continued, effective and determined factors to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries".

39. Developments in the negotiating process so far may have led to some degree of moderate optimism as far as the overall progress is concerned, with reservations concerning particular interests of developing countries cited above. With the conclusion on the 8th of April 1989 of the GATT Trade Negotiating Committee (TNC) meeting on the four remaining subjects out of the fifteen that were discussed at the Montreal Mid-Term Review last December, the Uruguay Round entered its final but crucial phase. While this recent agreement provides an encouraging backdrop to the talks, the achievement by 1990 of an outcome which responds to the needs of all the parties, particularly those of the developing countries, will require a negotiating environment characterized by realism and compromise.

40. There is a clear need for the developing countries to critically evaluate the results of the Montreal Mid Term Review of the Uruguay Round negotiations. It is evident that on many of the eleven subjects on which agreements emerged in the Montreal meeting, the decisions have not fully resolved some of the more confrontational issues like those of TRIMs. The differences between the participants that emerged during the first phase of the negotiations have in some cases been merely postponed. Nevertheless, in some of the contentious areas such as trade in services a workable basis for constructive progress in the second phase has been provided. Moreover, in the subjects directly related to access to markets, there has been a fair degree of precision and commitment with respect to the second phase of the TNMs (for instance, "substantial reduction or elimination of tariffs by all participants", agreement on sectoral coverage of the tropical products negotiations etc.). Similarly, deadlines have been set for the termination of data collection process and actual initiation of substantive negotiations".

41. Of the four issues dealt with by the TNC later in April, a detailed text of considerable importance was agreed upon in respect of agriculture, a sector which hitherto escaped GATT disciplines. The central feature of this compromise agreement is that the long-term objective of the Round is to establish a fair and market-oriented agricultural trading system. Meanwhile, subject to certain qualifications, current levels of protection are not to be exceeded. For their part, the developing countries managed to emphasize two broad considerations: first because agriculture accounts for a major part of their GDP and provides income to wide group of the population, the developmental aspect of this sector should not be ignored. This implies the inclusion in the final package of

specific provisions which would enable developing countries to undertake certain measures without these being considered as forbidden subsidies in their case. Some of these measures are a provision of inputs at preferential and reasonable prices, financing of research by governments, availability of credit at lower rates, ensuring remunerative prices etc. Recently, a number of net importing countries are pre-occupied with the possible increase in market prices that the liberalization might trigger in the short run and insist that specific assistance measures should be envisaged in order to compensate for additional budgetary bill.

42. Progress has also been made in the area of intellectual property rights (TRIPS), with the agreement that the negotiations shall encompass ... the provision of adequate standards and principles governing the availability, scope and use of TRIPS. This agreement is accompanied by an implicit reference to the concerns of the developing countries that issues affecting their overall development objectives, such as restrictive business practices, the abusive use of TRIPS and the transfer or access to technology should form an integral part of the negotiating process in that area.

43. With an outcome on the issue of tropical products and a working basis for continuation of talks on trade in services, the Mid-Term Review from the point of view of developing countries could be said to be not so bad. Seen in conjunction with improvements in some of the systematic issues such as dispute settlement, one could tentatively characterise the overall results of Montreal meeting as positive. However, the April TNC meeting seems to have shifted the balance in the negotiating process against the developing countries. Thus even before the Montreal meeting it was clear that two subjects - those of Safeguards and Textiles and Clothing - could at best result in a procedural decision for the developing countries since the above two issues had barely been negotiated during the first phase of the Uruguay Round. It still seems highly unlikely that the major developed countries could accept a commitment to liberalize their restrictions under the Multi-fibre Arrangement or abandon the selectivity in safeguards.

44. Furthermore, as the Uruguay Round negotiating process advances after the Mid-Term Review decisions adopted in Montreal and Geneva in December 1988 and April 1989 respectively, the problem of asymmetry first identified during the preparatory stage of the Mid-Term Review, becomes more acute to the detriment of the interests of the developing countries. Similarly, it becomes increasingly evident that the Uruguay Round was launched by the developed countries in order to secure the inclusion of "new issues". On the other hand, the developing countries accepted to negotiate on the understanding that the issues of primary interest to them would be meaningfully addressed. In this regard it has to be stressed that in order for them to ensure that the overall results of the MTNs incorporate their concerns and interests, the developing countries have to double their efforts and work assiduously during the final stage of the Round.

VI. CONCLUSIONS AND RECOMMENDATIONS

45. On the basis of the preceding analysis, it can be seen that while the developed market-economy countries experience the longest economic expansion of the post-war period, most developing African countries continue to stagnate. Worse still, a deterioration can be foreseen in their growth performance in the nearest future also. Africa seems to be caught in a vicious circle linking inflation and budget deficits to debt and socio-economic stagnation so that governments are themselves caught in policy dilemmas. Adjustment programmes aimed at achieving balance in external payments, for example, often produce perverse results. Moreover, attempts at checking domestic demand reduce government income from taxes and import duties, which are often the major source of revenue, while currency depreciations raise the domestic currency costs of debt-service obligations and imports, thereby exacerbating inflationary pressure.

46. Trade policy reforms have also been a source of negative interactions. In an economic environment often characterized by foreign exchange scarcity resulting from heavy debt service payments, and by exchange rate instability associated with this scarcity and with high inflation, imports and investment fall in real terms. In such circumstances, therefore, the response of economies to the generalized import liberalization has often been weak in terms of economic growth achieved. Contrastingly, countries which have adopted targetted import liberalization accompanied by selective export incentive packages and stable exchange rates have achieved the best export records. However, protectionism in the developed countries' markets remains a major obstacle to the success of trade policy reforms. Additionally, the possibility of achieving high rates of investment and boosting exports seems to be very low for most African countries which are in the grip of macro-economic disorder created by enormous debt overhang.

47. Another conclusion that can be made at this juncture relates to a growing incoherence between the trade policies of the developed and developing countries which could threaten the future attempts by the latter to achieve export-led growth. The protectionist environment that developing Africa encounters at present implies that newcomers to international markets concentrating, in particular, on more traditional manufacturing sectors, may not be as successful in increasing their exports as the newly industrialized countries of South East Asia have been over the past two decades. Among the negative developments on the world trade scene that substantiate this view are actions taken by the United States of America under the Omnibus Trade Expansion and Competitiveness Act. Fears are also expressed that the process of achieving the conformity among national non-tariff barriers in the run-up to the Single European Market in 1992 could lead to a further escalation of protectionism affecting, among others, exports of the African countries.

48. In fact, the consequences of the completion of the single market will vary in nature and intensity depending on the structure of production and competitiveness of the Community trading partners. Thus, it will be primarily the developing countries with flexible and strong production capacity that will take advantage of the enlarged market and the increased export opportunities it will offer. Even the representatives of the European Economic Community themselves

admit that in this situation the weakest among the developing countries could well find the going initially much harder. They must therefore count on receiving special consideration and support under the EEC development policy.

49. As the Lome IV Convention will cover the period from 1990 to 1995 it must contain preventive measures to ensure that the single European market of 1992 will not be achieved at the expense of the ACP countries. However, the expected outcome of the ACP-EEC negotiations seems to be putting an end to most of the preferences previously enjoyed by the ACP group which will be faced with the real threat of being caught in the middle of the evils of protectionism and the excesses of the liberalization. In other words, greater openness of the Community market entailing stronger competition from other developing countries coupled with continued protectionism in certain areas of export interest to ACP countries as well as reduction in their preferences will certainly lead to further marginalization of the latter. To counter this tendency, the ACP group should insist on a number of special measures, some of which are listed in Chapter III above. This is one of the ways of ensuring that their long-term interests are not swept away from the EEC market by more developed competitors. The situation calls furthermore for a more efficient and rational production structures on the part of the ACP countries themselves; hence, the need for corrective measures at their level too, preferably well before the completion of the single market takes place.

50. In the area of Multilateral Trade Ngotiations under the GATT auspices, while progress has clearly been made in the Mid-Term Review, it would appear that several issues of concern to the developed countries like the functioning of the GATT system, agriculture, services and TRIPS, have advanced to a greater extent than issues of interest to the developing world, such as non-tariff measures, safeguards or textiles. Thus, for example, the selectivity problem in safeguards and a commitment to eliminate the Multi-Fibre Arrangement in textiles remain in abeyance. If these and other outstanding issues are approached in a negotiating spirit aimed at reconciling divergent interests, then the promise would exist for a final agreement which would make the GATT more relevant to trade and development in today's economic environment and whose content would have far-reaching results for the economic well-being of all the countries.

51. In this view a matter of crucial importance for the developing countries is to ensure that the balance achieved in Punta del Este be preserved among the aims of the negotiations, and that the agreement reached in Montreal should not be considered as a rewriting of the Punta del Este Declaration. In this connection it must be recalled that the above Declaration does not recognize liberalization of trade in services as a goal in itself, but states that this liberalization as well as expansion of trade should be such as to lead to economic growth and development of developing countries. If this objective is to be pursued effectively, relevant concepts to the development goals as development compatibility, relative reciprocity, preferential market access opportunity, access to modern technology, enhancing national services capacity, regulation of the activities and practices of the market operators and sovereignty of national economic space, should be included in any future agreement on trade in services as well as all other sectors.

52. When all the above are considered together and in the light of the analysis of the Africa's trade performance, it would be opportune to return to the Lagos Plan of Action and the Final Act of Lagos in order to pursue relentlessly their goals and objectives. An end needs to be put to the dichotomy between the short-term crisis management through adjustment and the pursuit of the long term development approach, with the appropriate recognition given to the adjustment and its integration with the long term development objectives already elaborated in the African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation. The logic of the AAF-SAP and its transformational path to adjustment is that it provides an opportunity for a complete refocussing on domestic development that will compel relentless pursuit of the policy measures and priorities enunciated in the Lagos Plan of Action and Africa's Priority Programme for Economic Recovery, 1985-1990.

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REPORT ON THE IMPLEMENTATION OF THE INTEGRATED PROGRAMME FOR COMMODITIES

INTRODUCTION

1. The integrated Programme for Commodities (IPC) was established pursuant to United Nations Conference on Trade and Development (UNCTAD) resolution 93(IV). The resolution contains two basic elements that aim to help solve and/or ease problems connected with commodity trade. Consequently, focus is on a series of arrangements designed to stabilize and strengthen the market structure for a range of products of export interest to developing countries. It also provided for the establishment of a Common Fund envisaged to be capable of becoming a source of financing the arrangements, in addition to its serving as a key instrument in attaining its objectives.

2. However, this report on the implementation of the Integrated Programme for Commodities is intended to give only an overview of the progress so far achieved. It nonetheless includes highlights of certain constraints encountered at the various levels and stages. It is in this regards that it examines a few international and regional actions that have been taken towards solving problems of commodity trade. Its major point of departure is resolution 93(IV) and some of the decisions taken subsequently by the Committee on Commodities of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) as well as those of the Conferences of the African Ministers of Trade. Understandably, the report devotes more attention to the status of the Common Fund for the Commodities. Important to mention also, is the fact that this report is compiled in part on inputs made available by the Commodities Division of the UNCTAD Secretariat. Because of the time at which it is prepared, extracts have also been taken from reports prepared for the United Nations Secretary General's Expert Group on the African Commodity Problems which began its work in April 1986.

II. MAIN ELEMENTS IN THE PROCESS

(a) International Commodity Arrangements

3. The underlying principle on needed action on commodities has been defined in the numerous international conferences and debates. The main pre-occupation whenever this issue is addressed seeks to find lasting solutions to the short, medium and long-term problems facing commodities, in particular, strengthening international co-operation between producers and consumers. There is a general recognition about the need for a better functioning of commodity markets and the desirability to achieve stable, more reliable and more predictable conditions in commodity trade, including the avoidance of excessive price fluctuations and the search for long-term solutions to commodity problems.

4. Among the principal commodities covered by international commodity agreements are cocoa, natural rubber, coffee, wheat, sugar, jute and tropical timber. The first two (cocoa and natural rubber) have economic provisions for market stabilization even though the Cocoa Agreement has been experiencing difficulties in its operations. The Coffee Agreement on the other hand, suspended its quota system on 4 July 1989 which in fact had been its main mechanism for stabilizing the coffee market. The other agreements on wheat and sugar previously had price stabilization provisions but now concentrate primarily on increasing market transparency. The International Tropical Timber Agreement and the International Jute Agreement are both of a developmental nature and without economic provisions.

5. The above notwithstanding and within the general framework, the process of comprehensive consultations between producers and consumers pursuant to the Final Act of UNCTAD VII was launched in early 1988. The individual commodities concerned were bananas, bauxite, cotton and cotton yarns, hard fibres and products, manganese, meat, phosphates, tea and vegetable oilseeds and oils. Those other commodities like copper and iron-ore which were already under discussion at intergovernmental level were not included in these consultations.

6. It ought to be stated therefore in general and especially during consultations among producers that interest has been expressed regarding action concerning such developmental measures as improvements in quality, development of new end uses, trade promotion, access to markets and prevention of disease for agricultural products. The question of price instability has also been discussed but price stabilization has not emerged as a major issue for international action.

7. So far, only in the case of bananas, has a producers' position been formulated. Unlike the producers, however, consumers, for the most part did not see the need for a second preparatory meeting on bananas. In the light of this situation, the producers have stressed that as decided by the Committee on Commodities in its agreed conclusions during its thirteenth session, work on bananas in UNCTAD should continue. They requested the Secretary-General of UNCTAD to hold further consultations at an appropriate time, in the light of developments in other international fora as well as developments in the world banana economy.

8. Although there was no producers' position on meat, consumers have adopted a similar stance to that on bananas.

9. The results so far, in terms of specific and definitive outcomes, are meagre. Yet, given the need for constant contacts by delegations with their capitals in an effort to harmonize views and the need for a persuasive and clear position on the precise form of international action being sought, the present situation was to be expected. One of the reasons for the slow progress of consultations has been difficulties in communication. Some of the main producing countries do not have resident representatives in Geneva. However, further delays, for whatever reason, could seriously undermine any chance of a successful outcome. Some developed countries are already interpreting the delays so far as a lack of political commitment by developing countries.

10. Since UNCTAD VII, there have been some encouraging developments concerning the establishment of producer/consumer arrangements for commodities not included in the consultation process. This has been the case, especially for tin and copper. Although tin was not included among the commodities on which consultations would be held, after the collapse of the International Tin Agreement, producers and consumers sought, under UNCTAD auspices, the way for establishing a new producer/consumer forum. Both processes were completed in 1989 when producers and consumers reached agreement for the establishment of study groups that are basically concerned with market transparency. The one on copper explicitly includes measures for the promotion of consumption. Both arrangements would permit the sponsoring of projects for possible financing by the Common Fund.

11. Iron ore, another commodity within ITC does not have an international commodity agreement and was not included in the consultation process. The work of the Intergovernmental Expert Group in Iron-Ore is continuing. Currently, preparations are being undertaken for its third session. The Group considers statistical material and other studies and provides a forum for exchange of views and information among producing and consuming countries on the world iron-ore market. UNCTAD also administers trust fund statistics on tin and iron-ore for the time being.

(b) Actions in the area of diversification, processing, marketing and distribution

12. For most developing countries, horizontal and vertical diversification of their economies is a long-term development objective. It has been recognized that diversification can help reduce vulnerability to changing market conditions and reduce instability in commodity export earnings. Increased participation in the processing, marketing and distribution of these products can also increase the share going to the producing country, of the value-added generated in the commodity sector. Producing countries can thus also exploit more fully the income-generating potential of their natural resources.

13. Among the crucial issues identified at UNCTAD VII were access to information flows in order to aid investment decisions, and human resources development. Both these issues are of particular importance to countries with less diversified economies. In the Final Act of UNCTAD VII, governments called for intensified international assistance to be directed to diversification programmes including processing, marketing and distribution and agreed that international organizations should assist in the implementation of such programmes including inter alia through technical co-operation projects and programmes, particularly for human resources development. In response to this decision, two preparatory assistance projects funded by UNDP are being implemented. The first aims at assisting in the elaboration of a project on policies for improving the commercialization of commodities by developing countries while the second is intended to explore the modalities of a programme to promote commodity processing in developing countries.

14. With respect to the first project, the envisaged activities will include, among others, advisory missions to assist governments in the formulation or evaluation of their commercialization policies, providing training material on evaluating international marketing systems and the exchange of experience between developing countries and developed countries on policy formulation and implementation through workshops/seminars. The activities will focus primarily on six groups of agricultural commodities in their raw and processed forms: tropical beverages (cocoa, coffee, tea), sugar, vegetable oils (especially palm and groundnut), meat and hides and skins, cotton, tropical fruits and vegetables as well as spices and flowers. However, other commodities can be covered where desired, and several countries have suggested the inclusion of fish.

15. As regards the second project, the Government of Japan proposed at UNCTAD VII the establishment of a programme for the purposes of improving the processing of commodities in developing countries and, in particular, the convening of a Round Table to make recommendations or suggestions on actions which could facilitate increased processing. The preparatory assistance project stems

from this proposal and involves consultations on the possible mechanism and activities of a Round Table with governments of a number of developing countries which are highly dependent on exports of commodities in their raw and elementary semi-processed forms, with governments of developed countries which are potential donors and with concerned international organizations. The initial idea is that the Round Table would act as a catalyst for new investment within the context of a country's strategy for development of the commodity sector by drawing upon and combining experience of international organizations, as well as that of developed and developing countries, in the identification, evaluation and implementation of processing projects.

16. The first project which deals with trade policies and activities, lends itself to a regional component for commodities of interest to developing countries. On the other hand, activities of the second project will deal with commodity processing at individual country levels. Within this context, research and technical assistance programmes in the field of mineral commodities has recently been initiated with a view to examining the role of the mineral sector in the development process of developing countries. The programme envisages a series of regional seminars like the one proposed in October 1989 for the Latin American and Caribbean region in Santiago, Chile, that will consider among others, the planning process in the mineral sector and some of the inter-linkages with the other sectors of the respective economies.

(c) Certain elements of interest to the African region

17. Needless to say, most African countries are dependent on commodities for nearly all their export earnings. This is one reason, among others, why positive progress with regard to implementation of the IPC is of great interest to the African economies. Available statistical data on prospects for commodities of export interest to Africa indicate at least three commodities (cocoa, coffee and cotton) as exceptionally prominent throughout the region. For instance, cocoa is grown by no less than 19 African countries; coffee is grown in 29 African countries; and cotton is grown in 37 African countries. Other products even if less universally grown in regional terms, are nonetheless of absolute importance to the economies of one or more African countries.

18. Production by Africa of some nine major export crops (groundnuts in shell, palm oil, sugar cane, green coffee, cocoa beans, tea, tobacco leaves, cotton lint, and natural rubber) in comparison to the rest of the world showed that only in three (tea, cotton lint and natural rubber) was Africa's production rate better than the latter between 1979-1981 and 1985-1987 periods in that they were much above world average. For the rest, Africa recorded a much lower production rate.

19. An analysis of the export statistics of forty-one African countries for the period 1967 to 1986 as conducted by UNCTAD secretariat showed clearly that while some individual countries had increased their dependence on commodities for their export earnings, some others had it decreased. It should nonetheless be pointed out that about thirty two African countries have not shown any marked tendency to diversify their exports. However, many of the problems prevalent and common to export commodities in Africa are related to the general

unsatisfactory prices received by growers in developing regions. Perhaps some of the regional initiatives like intensifying regional co-operation and expanding intra-African trade will generate the required dynamism for some of the subsectors of the commodity economy within the general framework of the IPC.

(d) The Common Fund for Commodities

(i) Present status

20. The Agreement establishing the Common Fund for Commodities entered into force on 19 June 1989. The Governing Council of the Fund held its first annual meeting in Geneva from 10 to 21 July 1989. At this meeting, it elected 26 Executive Directors and their alternates who will constitute the first Executive Board of the Fund. It also appointed the Managing Director of the Fund and decided to establish its headquarters in Amsterdam, the Netherlands.

21. The Preparatory Commission for bringing the Common Fund into operation, which was established in 1980, did not complete the work programme entrusted to it during the two years when it was active (between October 1980 and March 1982). As a consequence, the Governing Council entrusted the Executive Board with the task of preparing, for consideration by the Council at its second annual meeting, draft texts of the various rules and regulations required for the Fund to operate. Therefore, the Fund is only likely to become fully operational in 1991.

22. As of 31 August 1989, the Common Fund Agreement had been signed by 120 countries, and ratified by 104 countries accounting together for 67.37 per cent of the Directly Contributed Capital of the Fund. Pledges of voluntary contributions to the Second Account announced so far, and still outstanding, amount to a total of around US$230 million or 82 per cent of the targeted amount of US$280 million. In addition to any further voluntary contributions which might be pledged, the Second Account will have that part of the Directly Contributed Capital of the Fund which members decide to allocate to the Second Account, and for which a minimum target of US$70 million is set in the Fund's Agreement. Revenues accruing from the investment of the capital allocated to the First Account of the Fund shall be used, inter alia, to cover the administrative expenses of the Fund, including those of the Second Account.

(ii) Participation of African Countries in the Common Fund

23. Among African countries, forty-three have so far ratified the Agreement, four other countries 1/ have signed but not yet ratified it and three other countries 2/ have not yet taken any action. The OPEC Fund for International Development had offered grants to 24 African Least Developed Countries for the payment of the totality of their capital subscriptions. The European Community made a similar offer for three other African Least Developed Countries.

1/ Côte d'Ivoire, Liberia, Mauritania and Mozambique.

2/ Libyan Arab Jamahariya, Mauritius and Seychelles.

Finally, Norway offered grants to four other African countries for the payment of the cash portion of their capital subscriptions. Thus nineteen African countries (including those that have not yet become members) would have therefore, to pay the totality of their respective capital subscriptions themselves and at least some of these may face difficulties in meeting their financial obligations to the Common Fund.

24. At the first annual meeting of the Governing Council 16 African countries (of which fifteen were Least Developed Countries) were not represented, and therefore were not in a position to elect their representatives to the Executive Board. Perhaps because no provision had been made for the payment by the Common Fund of the per diem and travel expenses of their representatives which explains why many of them could not participate in the meeting.

(iii) Assistance available under the First Account

25. Only international commodity organizations (ICOs) established by a formal international commodity agreement (ICA) with buffer stocking provisions can have access to the resources available through the First Account of the Fund. Such access is governed by a formal association agreement to be negotiated between the Fund and the ICO concerned. There are at present only two ICOs which undertake buffer stocking operations and therefore, in principle are potential candidates for association with the Fund, namely those for natural rubber and cocoa (INRO and ICCO).

26. Natural rubber is a commodity of relatively minor interest to Africa and no African producing country is party to the current 1987 agreement. The large stock accumulated under the previous 1979 agreement (369,000 tonnes) has been practically sold and cash resources amounting to over US$380 million became available as a result, of which about US$2.67 million were due to the African members under the 1979 agreement (Côte d'Ivoire and Nigeria). If the International Rubber Council decided to conclude an Association Agreement with the Fund in order to take advantage of the facilities available through the First Account, this could enhance the ability of INRO to stabilize prices with reduced cash requirements from individual members, and would be of benefit to African natural rubber exporting countries whether they join or remain outside the 1987 INRO.

27. For cocoa, which is of major significance to many African countries, buffer stock purchases (financed through a levy on trade) have already reached the maximum volume of 250,000 tonnes provided for under the present cocoa agreement for the international buffer stock. The implementation of the supplementary mechanism (namely the system of co-ordinated national stocks of a total of 120,000 tonnes called «the withholding scheme»), which is dependent, among other things, upon sufficient finance being available, might be facilitated if the financing facilities under the First Account could be made available to the ICCO.

28. It should be stressed that the financing ability of the First Account of the Fund is not limited to its capital. In fact, the Directly Contributed Capital allocated to the First Account shall be employed to provide revenues to cover the administrative expenses of the Fund, to enhance the credit-worthiness of the Fund and as working capital to meet short-term liquidity needs of the First Account. The Fund shall not lend this capital to finance buffer stocks. The Fund will lend to ICOs the resources it would mobilize on the capital market or from governments through borrowings guaranteed by stock warrants and guarantee capital subscribed by [illegible] of the associated ICO concerned.

29. It is difficult at this stage to ascertain whether the Common Fund could play a «catalytic role» in promoting the negotiation of ICAs with buffer stocking provisions for other commodities of export interest to Africa. It appears therefore that any significant benefit to be derived by Africa from the Common Fund,when it becomes fully operational,would be limited, in the short and medium terms,to the assistance available under the Second Account.

(iv) Assistance available under the Second Account

30. The Fund is expected through its Second Account to provide mostly grants for the financing, inter-alia, of international programmes of research and development, productivity improvements, market promotion, marketing and measures designed to assist, by means of joint financing or through technical assistance, vertical diversification. The Agreement provides for replenishments of the resources of the Second Account, on a voluntary basis, whenever required. Access to Second Account resources does not require the conclusion of an association agreement between the Fund and the beneficiary body, nor does it require the existence of a formal international commodity arrangement. Moreover, the operations of the Second Account are not limited to any list of commodities. It is important to point out however, that an individual country cannot approach the Fund directly for finance from the Second Account. The projects to be financed through the Second Account have to be sponsored and followed up by an international commodity body (ICB) meeting specified criteria. These are less stringent than those required for a formal ICO. All existing ICOs (for tropical timber, olive oil, sugar, natural rubber, cocoa and coffee) whether or not they provide for buffer stocking are automatically likely to be considered as eligible ICBs for sponsoring projects to the Second Account. Less formally contributed international commodity bodies may also qualify if they are designated as eligible ICBs by the Executive Board of the Fund.

31. A number of programmes or projects for financing through the Second Account have been or are being prepared by international commodity bodies for several major commodities of interest to African countries. Some of these programmes or projects are specifically designed for Africa, or for specific groupings of African countries. Many of these programmes and projects have been waiting since 1980 or 1981 for the Fund to become operational in order to secure the necessary financing for their implementation. For most of these projects, only preliminary profiles have been prepared and the project costs represent only a rough estimate of real costs. Financial and technical assistance is urgently required for the up-dating of these programmes and for the elaboration of the final projects, as well as for the identification and elaboration of programmes and projects for other commodities of interest to African countries.